The Business Advocate Magazine

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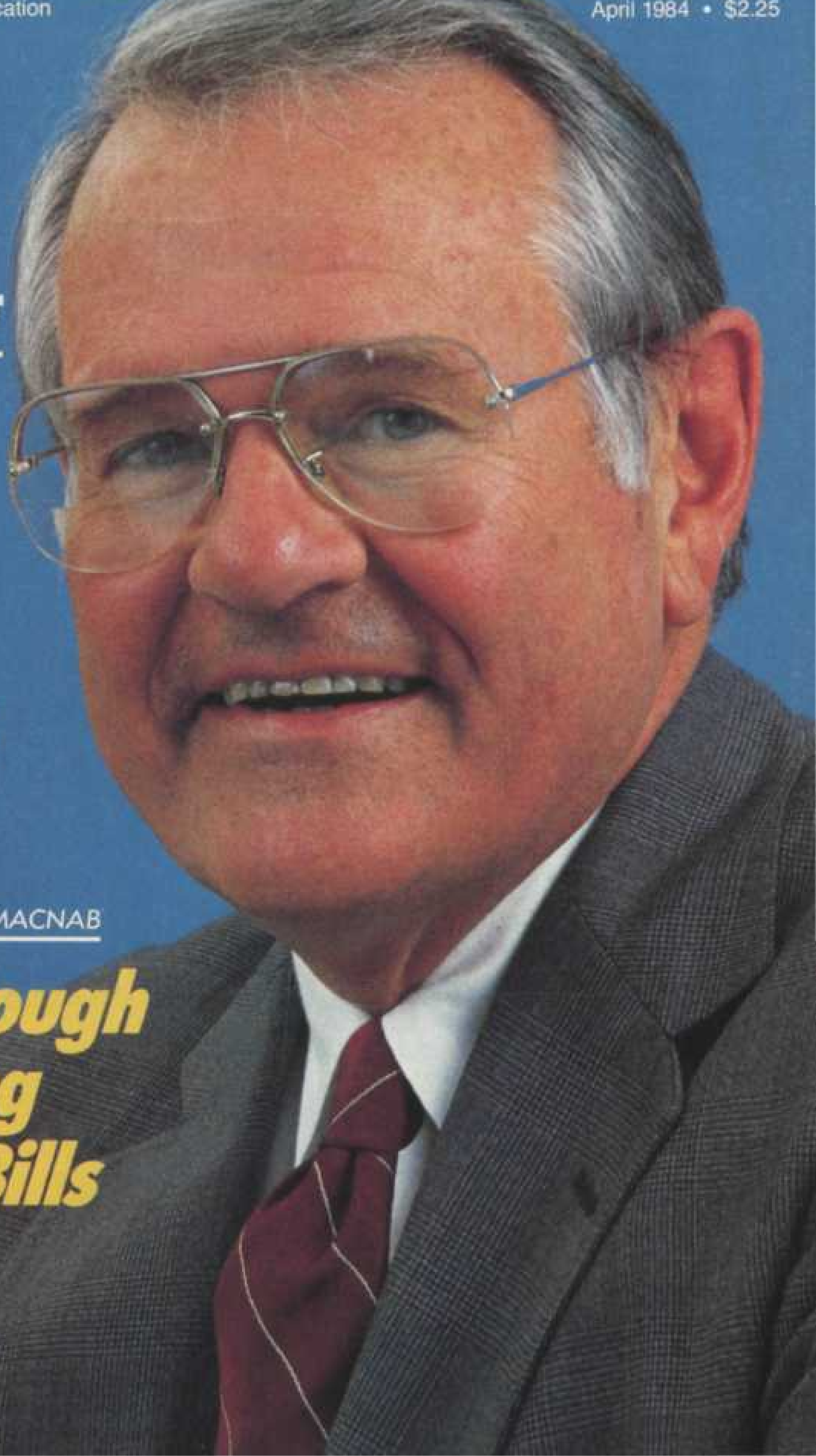

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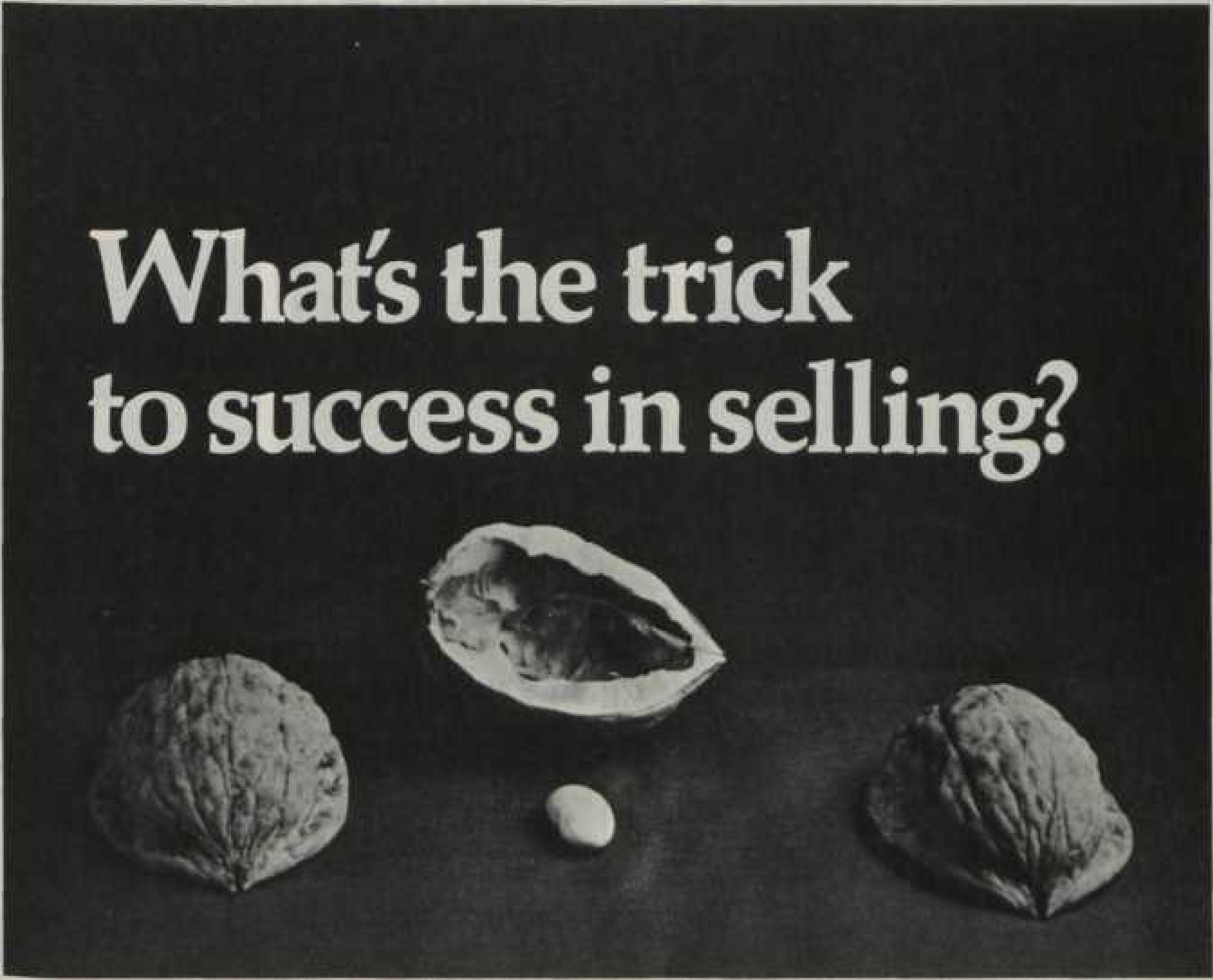
What's the trick
to success in selling?


PHOTO: RICK BLOOM

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PHOTO: LEN KAUFMAN

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PHOTO: DAWSON JONES

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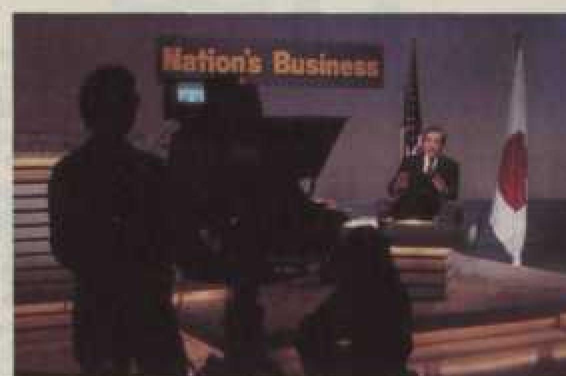

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Nick Caporella says life is 85 percent dealing with people, 15 percent knowledge. Applying that philosophy made him rich.

Nobody told Howard Lapides he needed capital and experience for business success, so he started without either—and succeeded.

John Calamos scored only 25 percent in his first try at investment advice, but his one winner sparked a career.

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Still More Equal Than Others

WE ARE approaching two of those nice round anniversaries so dearly beloved by the editors of editorial pages. On May 17 we observe the 30th anniversary of the Supreme Court's decision in *Brown v. Board of Education.* On June 29 we observe the 20th anniversary of the Civil Rights Act of 1964. It is a good time to look at where we have been, and at whither we are going.

I seldom intrude a personal note in these commentaries. This time I must. I was born a white Southerner in 1920, and I was reared with all the racial prejudices of my time and region. As a Southern newspaper editor in 1954, I deplored the High Court's opinion in *Brown.* Viewed as an exercise in constitutional law, the opinion struck me at the time as an indefensible usurpation of power; the Court did not interpret the Constitution, the Court effectively amended the Constitution. Thirty years have not changed my mind on this score.

Far from becoming color-blind, our laws are color-obsessed.

But 30 years have cemented my understanding that a decision that was legally wrong was morally right. State-sanctioned segregation cannot be condoned. Discrimination by reason of race is cruelly unfair. In the deepest and truest sense of the phrase, racism is profoundly un-American.

"Our Constitution is color-blind," said the first Justice John Marshall Harlan nearly 90 years ago. "It neither knows nor tolerates classes among citizens. . . . The law regards man as man, and takes no account of his surroundings or of his color."

That is sound doctrine. In one way or another, judges have been saying the same thing ever since. "The Constitution," said Justice Lewis Powell, "envisions a nation where race is irrelevant." "Under our Constitution," said Justice Potter Stewart, "the government may never act to the detriment of a person solely because of that person's race."

These are old American ideals. How well are they being served? I would argue that the ideals are being served poorly. Far from becoming color-blind, our laws and our court decrees have become color-obsessed. In every area of human existence that is touched by public law—in commerce, in education, in voting, in the hiring and promotion of civil servants—race has become one of the most relevant of all factors.

Under the deceptive banner of "affirmative action," we have reverted to the kind of racism that in other contexts we so deeply deplore. Thirty years after *Brown*, 20 years after the Civil Rights Act, we are engaged once again in state-sanctioned discrimination by reason of race.

But, says Professor Thomas Nagel in *The New Republic*, this time we are engaged in racial discrimination "for entirely different reasons." Nagel is chairman of the philosophy department at New York University. He sees nothing morally repugnant in denying a white person a job or a contract or a slot in a medical school because the person is white. True, the white person is "penalized." True, the system imposes burdens on people "who have done nothing to deserve them," but the unfairness is not severe enough to exclude affirmative action if it produces results important to society.

It is curious that a philosopher should embrace public policies that are willfully unfair. It is equally curious that our High Court should approve acts that are patently unconstitutional. Our supreme law says that neither the states nor the central government may discriminate against *any* person, yet in the Weber case of 1979 and the Fullilove case of 1980 the Court flung "any person" to the winds. In these cases the Court upheld the law of George Orwell's *Animal Farm*—all the animals were equal, but some were more equal than others.

The defenders of affirmative action hold to the view that the benign end justifies the invidious means. The end, in theory, is the righting of a great wrong—a wrong that endured for 200 years of slavery. That proposition makes for fine oratory, but it runs out of gas when it gets to a steelworker in Louisiana, a police officer in Boston or an electrical contractor anywhere. The white person who is today the victim of racial discrimination harbors precisely the same resentment against injustice that the black person harbored a couple of generations ago. Which is the attainted race now?

TO BE SURE, these nice round anniversaries will mark much progress for black Americans. The several voting rights acts have fostered their unimpeded participation in political life. Opportunities for employment and education have opened everywhere. The Jim Crow that I grew up with is dead, and good riddance.

All the same, let us not kid ourselves into believing that the good results have cost us nothing. We still have laws and court decrees that treat Americans differently because of the color of their skins. That is the fact. It is not a fact to make us proud. □

Monitoring the Media

James J. Kilpatrick's column "In Defense of the Media" [February] glossed over an important but seldom-mentioned source of bias in news reports, one that goes beyond the more direct analysis and interpretation pointed out.

The point of view of the reporter obviously influences the reader. The choice of one description over another can be intentional or an inadvertent bias of the reporter without overt intent to influence.

I have seen surveys documenting a preponderance of liberals in the reporting profession. Such a political imbalance is interesting and undoubtedly explains much of the distrust of the news media.

A good politician is well aware of the possibilities this affords.

PETER F. WELLS
Management Consultant
Rindge, N.H.

"In Defense of the Media" was vintage Kilpatrick in its incisive introspection. I wish the media would recognize the awesome responsibility it has in exercising its freedom under the First Amendment.

I am afraid that most media people—and notably the hysterical TV commentators—will not even know of what you speak.

PHILIP R. BALLINGER
Executive Vice President
Greater Sumter Chamber of Commerce
Sumter, S.C.

"In Defense of the Media" expresses an opinion long overdue. The media in this country have inherent power, which greatly concerns the general public—especially when this power is used indiscriminately.

Most people are not against the freedom of the press, except when the media infringe upon people's freedom through false reporting and sensationalized headlines on insignificant news items.

The media should exercise stricter self-control.

EARL C. WILSON
Vice President, Finance
Industrial Contractors, Inc.
Evansville, Ind.

Much damage can be done to people and ideologies by the media through selective bias in choosing the content of

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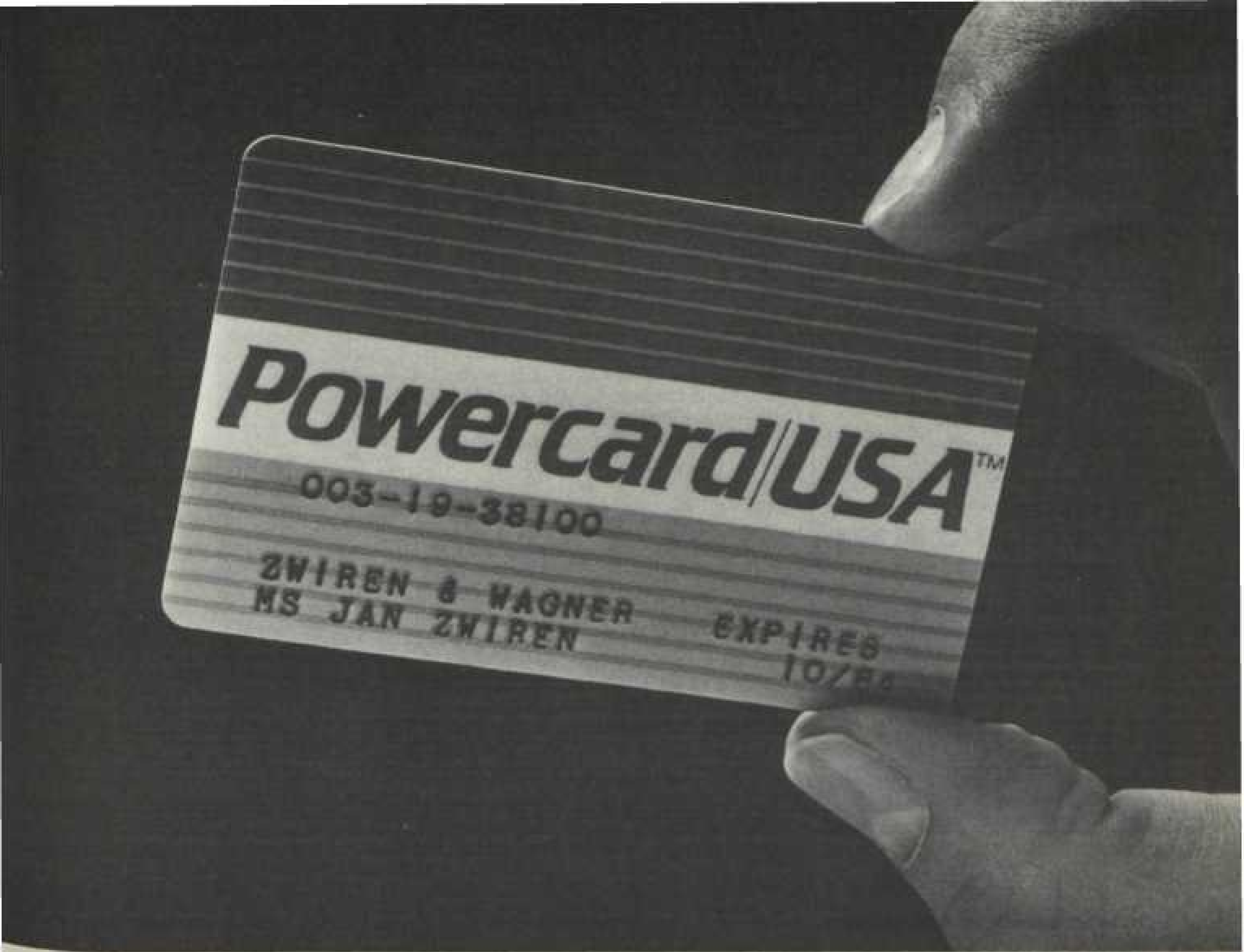

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the news. It makes no difference if truth and only truth is reported, if the total story is not told. Both sides, good and bad, must be presented to avoid errors of intentional omission as well as errors of commission.

CLEBIT DAVIS
Elmhurst, Ill.

One little word

What a difference a word makes.

In "A Forgotten Law To Aid Small Firms" [February], you mentioned a new product that Mary Collins and her company had developed. The process and the products are based on antibodies—not antibiotics.

Mary Collins, her company, Impro, and the marketing company, Pro Ag, are giants in the field of livestock health. They deserve an apology.

TERRY KELLY
Southern Tier Farm Supply
Hornell, N.Y.

The ugly Americans

As producers of the film series "Going International," mentioned in "Learning to Work Overseas" [March] as used by a number of companies, we are pleased to see NATION'S BUSINESS deal with the importance of cross-cultural training.

Americans, more than other nationalities, are underexposed to other cultures. Our educational system does not direct much attention to foreign skills necessary for success in a more competitive world marketplace.

Sadly, we do not necessarily learn such international skills by traveling, because it takes feedback to tell us how we are performing. People in foreign countries typically do not tell us when we have offended them. The American may return from a business trip abroad frustrated and complaining that "those people" are unmotivated, lazy, irresponsible or dishonest.

Without cross-cultural guidance, the American may never develop insight that would more constructively explain the failure to succeed in doing business with people of a different culture.

LEWIS GRIGGS
Copeland Griggs Productions
San Francisco

Solid in the South

"The Solid New South" [February] strikes an important chord about the future of Southern politics and its effect on American politics, particularly the fact that conservatives from both parties are playing a key role in the lawmaking process.

People like Rep. Phil Gramm (R-Tex.) and the Boll Weevil Democrats played a key role in implementing President Reagan's economic program, which is

The Chamber of Commerce of the United States, publisher of NATION'S BUSINESS, is a federation of businesses, trade associations, local and state chambers, and American chambers of commerce abroad.

now having a truly beneficial effect on business. Reagan brought into office with him several people who have worked well with and support the interests of business. This includes men like Sen. Mack Mattingly (R-Ga.) and Jeremiah A. Denton, Jr. (R-Ala.).

Sen. Mattingly recently received a grade of 91 percent from the U.S. Chamber of Commerce for his probusiness voting record. Sen. Denton received a grade of 81 percent.

Right now, President Reagan appears to be in great shape for re-election and should bring more Republicans into Congress on his coattails. With the Dixiecrats they will form a major conservative voting bloc.

ROBERT S. GROSSE
President-Treasurer
William Howard Taft Young Republican Club
Westbury, N.Y.

Resisting rescission

Regarding the effort in Maryland to rescind the state legislature's 1975 approval of a constitutional convention to draft a balanced-budget constitutional amendment ["Rebellion Against Deficits," March], it should be noted that there is a strong, bipartisan effort to forestall rescission.

There are many checks on a runaway convention, but Congress is the only check on runaway inflation. Most citizens no longer believe Congress can be trusted. I am convinced that Congress will not act to accept a balanced-budget amendment unless pressured to do so by the adoption of resolutions by state legislatures. That is why Maryland's resolution should not and probably will not be rescinded.

JOHN LEOPOLD
Delegate, District 31
Annapolis, Md.

Wrong project

"The Fragile Future of Synthetic Fuels" [March] carried a photograph of a synthetic fuels project that was incorrectly identified as the Cool Water Coal Gasification project in California. The project shown in the photo is the Union Oil Phase I facility in Colorado. The Union project was awarded price guarantee assistance from the Department of Energy in 1981 and is now being monitored by the Synthetic Fuels Corporation.

KAREN B. HUTCHISON
Director, Media Relations
U.S. Synthetic Fuels Corporation
Washington

War of the waistline

Re: "Lifelong Weight Control," [March].

Unquestionably, a significant adjustment in eating habits is a large part of permanent weight control. In 1981, at the age of 38, and after losing and gaining over 600 pounds in my lifetime, I decided that there had to be a better way. By educating myself on proper diet and nutrition (something I had not bothered to do before) and by starting a sensible exercise program that progressed from walking to jogging to running, I was able to lose over 100 pounds, reduce my blood pressure to a normal level and maintain normal weight for the first time in my life. The secret is diet *and* exercise.

GUY Q. FOLKMAN
Greenville, S.C.

Junking junkets

"The Saving Grace" [March] was very informative about cutting government spending programs. Congress must cut spending on itself, too. If congressmen were subject to limitations put on corporate executives, junkets around the world would be greatly curtailed.

ROBERT J. ANDERSCH
The Wing Company
Cranford, N.J.

WASHINGTON LETTER

▶ BUSINESS WARNS TAX WRITERS in Congress that several revenue-raising proposals now being advanced would have adverse impact on private sector's ability to maintain pace of recovery. They include further restrictions on industrial development bonds, weakening of investment incentives under Accelerated Cost Recovery System, health insurance taxes that could increase labor costs.

▶ REVENUE BILLS HAVE PROGRESSED in tax-writing committees on Capitol Hill, but prospects of ultimate passage remain uncertain. Measures drafted by Senate Finance, House Ways and Means committees differ significantly. And substantial number of members of both houses plan to counterattack with plan for deficit reductions via spending cuts alone. Prospects are that proposals for higher revenues will have trouble winning approval in both houses of Congress unless they are tied to significant spending cuts.

▶ MORE IMMEDIATE CONCERN for many taxpayers is April 16 deadline for filing 1983 returns. Question of whether audit will ensue is often not far from minds of those filing. Matthew Bender & Company, leading tax and legal publisher, advises that "top audit triggers" include gross receipts over $100,000 on combined Schedule C and F forms, income over $50,000 on 1040 nonbusiness returns, tax shelter activity, travel and entertainment expenses that might appear excessive, business use of an automobile, casualty losses, barter income, home office deductions and losses from hobby-like activity.

▶ IN POSSIBLE PREVIEW of 1988 political developments, Senate Majority Leader Howard Baker (R-Tenn.) and Sen. Edward M. Kennedy (D-Mass.) will clash over national issues in debate before annual meeting of U.S. Chamber of Commerce. Both are already considered among prospective major candidates in presidential nominating contests four years hence. Their April 30 appearance before Chamber meeting will highlight mock political convention. Each will argue that his respective party's 1984 candidate will be best for nation.

▶ U.S. TREASURY BORROWING in capital markets this year will probably exceed $1 trillion for first time ever. First Pennsylvania Corporation economists estimate funds needed to replace maturing debt will total $866 billion, while more than $190 billion in new money will have to be raised. The bank analysts say that healthy corporate finances will avert government-private sector competition for funds this year, but picture might change in 1985.

▶ BASIC U.S. FARM LAW will be up for renewal next year, and skirmishing is already under way. Despite 1983 drought, government crop limits, prospects are for new round of farm surpluses requiring big subsidies. Such outlays hit record $18.8 billion last year, providing ammunition to critics of current agriculture policies. They will be arguing next year for return to free market approach. Others maintain that government withdrawal would threaten destruction of farm economy, raise risk of inadequate food and fiber for future generations. Debate over farm policy will be one of most historic since current government role was established in early New Deal days.

▶ HOPE THAT EXPORT MARKETS will soak up surpluses is waning. Dollar stays strong, and other countries just don't

have enough of them to buy U.S. farm output in quantities that would keep subsidies below controversial levels.

▶ THAT STRONG DOLLAR will have impact in many other export areas, and overall U.S. trade deficit this year is expected to be even higher than last year's record \$69.4 billion. The International Trade Administration predicts it could reach \$110 billion. Strong dollar makes imports cheaper, exports more expensive. Situation is compounded by booming U.S. recovery, giving consumers more to spend on imports while much of rest of world lags on digging out of recession.

▶ NATION NEEDS MORE PRECISE DEFINITION of productivity to reflect importance of capital investment in production gains. That's view of Todd G. Cole, president, C.I.T. Financial Corporation. He sees risk in measuring productivity gains solely in terms of output per employe hour. Cole warns that assuming all such gains flow from improved worker performance could "stimulate another upward wage spiral at the expense of the supplier of capital and the customers." Issue is important, he adds, as employes begin demanding larger share of profits that actually resulted from investments in new equipment and technology.

▶ CONGRESS VIEWS AS THREAT proposed constitutional convention to write balanced-budget amendment, but some members join in campaign to require calling of such a conclave. About 50 senators and representatives offer to help win approval of two additional states needed to force Congress to call convention. Sen. Pete Wilson (R-Calif.) and Rep. Larry Craig (R-Idaho), leaders of new group, say goal is to force Congress to approve balanced-budget amendment on its own or lose control of issue to convention. Most state calls for convention contain delay mechanism to give Congress time to act.

▶ SURPRISE DECLARATION by Internal Revenue Service triggers sharp controversy over one aspect of flexible benefits programs being utilized by growing number of companies. IRS statement held that "flexible spending" plans could not be used to reduce workers' taxable income. In such arrangements, employers redefine part of salary as reimbursement for worker expenses for medical, legal, child care or other such purposes. Douglas C. Borton, chief actuary for Buck Consultants, employe benefits consulting firm, says IRS position would cause "gross and unnecessary benefit inequities." Borton calls for public hearings on agency's stand. (For a report on how the use by employers of flexible benefits of all kinds is growing, see page 80.)

▶ TOO MANY TEXTILE IMPORTS are in violation of federal labeling laws, two textile-state members of Congress complain. Sen. Strom Thurmond (R-S.C.) and Rep. James T. Broyhill (R-N.C.) say many imports lack "clear and conspicuous" labels showing country of origin. They move to strengthen current law with bill to require that both textile product and package show origin conspicuously. Bill would also require labeling for U.S.-made goods, require catalogs, other advertisements to show country of origin of textile products.

▶ HOUSE OF REPRESENTATIVES continues to demonstrate its opposition to relying on private sector for goods and services needed in federal government. Latest ploy would require delay of 45 legislative days, which could become many months of real days, in implementing any contracting-out decisions. Business is urging Senate to kill House proposal.

▶ AFL-CIO KNEW FROM OUTSET that its plan for early backing of Democratic presidential candidate carried risk that its choice might not survive primaries and that winner would resent big labor's all-out support of an opponent. Sen. Gary Hart's emergence as front-runner at expense of labor-backed Walter Mondale now threatens to create just such a situation. Hart victory could prove another major political embarrassment to AFL-CIO, which has had full share of them in recent years.

Consumer Confidence: Still High

On Wall Street and Capitol Hill, some politicians and stock traders are muttering that the economy may falter later this year. But business people and consumers are not paying much heed to the scare talk.

Public confidence in the economy, according to the Conference Board, a New York-based research organization, dipped slightly in February but remains near its high of recent years. This is important because consumers' purchases of goods and services account for two thirds of total demand. Commerce Department reports confirm that consumers' income and spending continue to rise.

Business investment in new machines and buildings—it accounts for the other one third of total demand—is also looking up. Eighty-eight percent of manufacturers responding to a February survey by the National Association of Business Economists say demand is still rising. The significance of this is heightened by Federal Reserve Board reports that factories are operating at close to 80 percent of capacity. At this level companies begin to order new equipment to increase output.

Optimism's Rise

A Conference Board index measures consumer confidence about job and income prospects and business conditions. It rose from the end of the recession in November, 1982, through January.

The direction of interest rates—up or down—is the unknown factor giving Wall Street and Capitol Hill cause for concern. Will the Fed supply enough money to keep factories busy? Or, in the name of fighting inflationary expectations, will it squeeze the supply of credit and drive interest rates up?

Rep. Jack Kemp (R-N.Y.), echoing voices heard on Wall Street, is concerned that the Fed, in the months ahead, may pay too much attention to the money supply and not enough to keeping interest rates steady.

"The people have a right to know," Kemp says, "what criteria the Fed chairman is using when he decides to increase or decrease the supply of money and credit."

The weekly money supply figures—they are a leading indicator of economic growth—are unlikely to provide a clue to the Fed's intentions. In February the Fed changed the method used to determine banks' reserves. This gives it tighter control over creation of credit. Banks now must pay closer attention to the amount of loans outstanding.

Credit market participants caution that it may take a while for commercial banks to adjust to the new procedures, and until they do, fluctuations in the money supply that may occur as a consequence of this change will not be a good indicator of Fed policies.

A Return to the 1960s?

Dour predictions of a sudden slowdown in the economy and a sharp rise in inflation later this year—in short, a return to the conditions that led to the boom-and-bust cycles of the past 15 years—may be a lot of eyewash.

One forecasting firm points to indications that the administration's tax and anti-inflation policies, in combination with long-term demographic changes, may produce economic statistics through the end of the decade that look like those of the 1960s, when the economy experienced its longest postwar boom.

The keys to this optimistic forecast by the Hartford-based Cigna Corporation are a slowdown in the growth of the labor force and a return to low inflation.

Cigna's chief economist, Edward Guay, sees the labor force growing 1.5 percent annually through the end of the decade, compared with the 2.7 percent annual rate of the '70s. This may produce an underlying unemployment rate of 4.5 percent, he says—a level last seen two decades ago. More recently, economists say, the underlying jobless rate has been about 6 percent.

If the Federal Reserve succeeds in reversing nearly two decades of inflationary monetary policies, Guay says, real interest rates will come down, leading to an investment boom.

Falling Interest Rates?

Laurence H. Meyer & Associates, a St. Louis consulting firm, forecasts that interest rates will "begin a modest decline in the second quarter," despite predictions that Congress will wait until next year before taking "serious action" to cut projected budget deficits.

But Nicholas Filippello, chief economist of the Monsanto Company and president of the National Association of Business Economists, says interest rates would fall 1 to 2 percentage points if Congress and the administration agreed to a three-year, $100 billion "down payment" on the projected deficits. This action would lower the fiscal 1985 deficit—projected at $180 billion to $200 billion—to $140 billion, Filippello says.

Meanwhile, the outlook for congressional action is clouded by election year politics. Senate Finance Committee Chairman Bob Dole (R-Kans.) is confident that $100 billion in deficit reductions can be achieved through a 50-50 split between higher revenues and reduced spending.

Democrats are fearful, though, of losing what may be one of their few remaining economic issues in the coming campaign: blaming the Republicans for inaction on the deficits.

As for recent profit taking in the stock market, one Wall Street veteran, Treasury Secretary Donald Regan, credits speculators with predicting nine of the past six recessions. □

—Peter A. Holmes

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A Larger Definition of Small

New size standards issued by the Small Business Administration mean that 46,000 more companies will be eligible for government loans and federal contracts.

About 98 percent of the nation's businesses will now be classified as small, broadening competition for $11 billion in federal contracts earmarked annually for small firms. More companies will also qualify for the $4.3 billion in loans, loan guarantees and disaster assistance annually available from SBA.

The revised standards, in effect one month, largely follow SBA's tried-and-true method of measuring companies by either gross receipts or number of employes, or both. An earlier plan to base the standards solely on the number of employes was met with howls of protest and thousands of negative comments.

After four years of struggling to revise the standards, SBA's new size rules make a massive adjustment for inflation, markedly increasing the number of firms considered small. A year ago, SBA officials predicted that the revision would make 36,000 more firms eligible, instead of the 46,000 actually made eligible.

Industries that have been measured by gross receipts have had that yardstick increased 81 percent to reflect inflation since 1975, when the last such adjustment was made.

Manufacturers and wholesalers, previously measured by gross receipts, will now generally be considered small if they employ fewer than 500 workers. Nearly all other industries will be measured by gross receipts. For example, fishing, hunting and trapping companies will now have a size standard of $2 million in gross receipts, rather than the old 25-employe guideline.

Boom in Business Births

Thousands of small businesses are being started every day, continuing a record-breaking trend set last year, new figures show.

Estimates by Dun & Bradstreet and the Small Business Administration indicate 1984 will be a banner year for new business incorporations, on the heels of a record year in 1983.

Business incorporations reached an estimated 600,000 last year, a 5.2 percent increase over the 566,000 filings recorded in 1982. The previous all-time high was 580,000 in 1981.

SBA Chief Counsel for Advocacy Frank S. Swain says the data "clearly show that an ever-increasing number of men and women are interested in becoming their own bosses."

He adds: "Obviously, the economic recovery fuels such desires. The overall trend is one of more and more persons starting up their own enterprises."

A small percentage of the new incorporations involves established sole proprietorships and partnerships. Also, some of the new filings represent corporations that are making legal or geographic changes.

The largest regional year-to-year gain in new incorporations—12.8 percent—was found in the Rocky Mountain states of Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah and Nevada.

Only the states of Arkansas, Texas, Oklahoma and Louisiana recorded a regional drop in business incorporations.

Business Incorporations

Region	1982*	1983*
Total	417,809	451,176
New England	19,460	21,433
Middle Atlantic	69,756	78,979
East North Central	54,937	58,585
West North Central	21,568	24,274
South Atlantic	96,767	107,870
East South Central	16,097	17,402
West South Central	54,534	53,074
Mountain	29,665	32,758
Pacific	55,025	56,801

* From January to September

Source: Dun and Bradstreet

A Push for Pooling

Small companies could find bank loans easier to get if Congress approves some minor changes in a federal program.

Rep. Henry J. Nowak (D-N.Y.) is sponsoring a bill that would allow banks to pool their Small Business Administration-backed loans. The SBA currently allows each bank to sell its SBA-guaranteed loans in the secondary mortgage market to other banks, which buy them as packages made up of a number of loans. Pooling would permit several banks to put their loans together into a single large package that would be more attractive to many buyers.

Nowak's bill also would ease some administrative problems involving record-keeping and payment-schedule paper work. It would also allow other institutional investors, such as insurance companies and pension funds, to purchase loan packages.

A General Accounting Office report recommended a year ago that pooling be allowed. The GAO noted that selling more of the SBA-guaranteed loans to institutional investors would improve banks' cash flow and make more funds available to small business borrowers.

Nowak says his measure could reduce interest costs on small companies' loans. He adds that "the basic thrust of this proposal is to improve a proven and successful federal government program—the SBA-guaranteed loans."

The SBA program allows participating banks to lend up to $500,000 to small businesses, with 90 percent of the amount guaranteed by the agency—meaning that banks recoup 90 percent if the borrowers fail to pay off the loans.

Although the GAO report recommended that changes in the loan program's secondary-market operations be left up to SBA officials and not legislated by Congress, Nowak has decided to press forward with his bill. □

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PHOTO: RICK BLOOM

Competition Comes To Medical Care

Insurance rates have soared. Now business is fighting back.

By Peter A. Holmes

IT WAS LIKE "giving people credit cards and telling them that they did not have to worry about running up big bills, that someone else would pay them."

Douglas Macnab, industrial relations manager for the Koppers Corporation plant in Baltimore, thus describes how the generous health insurance provided by many American companies contributed to the runaway medical care costs now posing a major financial problem for those same employers. The cost escalation was translated into a 250 percent increase in business expenditures for health insurance in the last decade.

The Koppers approach was typical. The company paid the full cost of coverage, routinely absorbing increases as they came along.

But a turning point came last fall, when the company was hit with a 30 percent increase in medical insurance premiums at a time of poor business conditions. The new rate was set at $232 per month per worker.

Plant officials responded by demanding that workers begin to pay a portion of health insurance costs, and they went through a strike rather than yield on that point. The strike ended when the workers agreed to pay $13.25 per month, one fourth of the increase.

Another direct result of the Koppers experience was the formation of a Baltimore-area coalition of employers and unions committed to seeking ways to reduce health care costs by bringing marketplace attitudes to the financing of health care services.

Macnab, who is a cochairman of the coalition, says the goal is to apply standard marketing practices to the purchase of health care: "Whoever comes in with the best proposal will get our business."

In his leadership role in the coalition, Macnab is typical of many business leaders throughout the country who are spearheading a fast-growing movement to counteract the medical cost spiral with one of the oldest economic remedies—marketplace competition.

Experts say the movement, which has taken many forms, represents the first significant progress toward curbing health costs since the beginning of the price escalation (see chart, page 20) that has brought medical care costs to $322 billion a year.

Other developments in the new competitive surge include:

• The rapid growth of preferred provider organizations, a relatively new concept in health care delivery systems. PPOs have the effect of creating competition because doctors and hospitals in a PPO are willing to discount prices in exchange for a stable volume of business and the promise of quick payment for services as rendered. Workers whose employers are in a PPO go to doctors and hospitals in the plan, with results reflected in the employers' insurance premiums.

• A surge in enrollments in health maintenance organizations, which provide medical care to enrolled members on a flat-fee basis. Membership now exceeds 12.5 million, and a leading expert on HMOs estimates that it will reach 50 million within the next decade.

• Innovative employer approaches to cost-cutting, such as a Goodyear Tire & Rubber Company plan that discourages unnecessary use of health services by giving workers incentives not to file insurance claims.

• The proliferation of free-standing clinics offering outpatient surgery and other services in competition with hospitals.

• An appeal from the American Medical Association to its member physicians for a one-year freeze on increases in fees.

• New emphasis by employers and insurance companies on ways to maintain good health, a policy that follows the business theory that heading off problems is the most efficient and least costly way to deal with them.

• Efforts by insurance companies to develop new types of policies that meet companies' demands for competitive and other cost-cutting approaches.

• Sharp expansion of the number of business health coalitions. Such coalitions now number about 150, compared with 25 two years ago, according to the Clearinghouse on Business Coalitions for Health Action, a unit of the U.S. Chamber of Commerce. These organizations have the specific goal of encouraging businesses generally to become discerning purchasers of health care services and to reject the passive role of

PHOTO: RICK BLOOM

PHOTO: LEE LOCKWOOD—BLACK STAR

Young physicians like those in the bottom photo are entering a different world of medical fees, thanks to such innovators as executive Douglas Macnab (shown with one of his company's employes) and Dr. David Solomon (shown with a patient).

after-the-fact payers for such services.

• The entry of a growing number of private companies into the home health care field, which many experts believe offers potential for significant savings on medical costs.

Viewing the many changes that are injecting more and more competition into health care, Jack Meyer, director of the American Enterprise Institute's center for health policy research, says:

"American business is like a sleeping giant beginning to wake up. It is beginning to recognize that gathering information about the market is an essential ingredient to controlling costs."

Gathering information on which to base marketplace decisions is one of the principal functions of coalitions like the one the Koppers Corporation's Douglas Macnab helped to found in Baltimore.

"What we are looking for is a lot more competition in health care," Macnab says. "That is what will drive the cost down." His coalition has two principal lines of attack: (1) working with providers to bring costs down and (2) an education program to show how abuse and unnecessary use of health services drive up costs.

THE COALITION approach is particularly effective, Macnab says, because an organization such as his, representing 1 million prospective patients, "can get the attention of the health care industry."

And the Baltimore medical community is taking notice. One organization seeking to provide services to companies and unions that are in the coalition is Comprehensive Health Associates, a preferred provider organization formed last August by a group of physicians.

Dr. David Solomon, president of the association, terms inadequate the present practice in Maryland of relying for the most part on hospitals, insurance carriers and review boards (made up of health professionals and government officials) that monitor expenses.

His organization, Solomon says, "is walking away from that system. We are going to be rationing health care, with the dollars used to treat people who are really sick. It's about time that physicians and the public realize a hospital is not a hotel."

In its nine months of existence, the association has lined up more than 200 physicians and half a dozen hospitals, specialty and nonacute-care and extended-care facilities, all willing to offer reduced rates in return for guaranteed business through the PPO, when it begins operation this summer.

Solomon's plans envision a statewide organization that will include private insurance companies seeking to take advantage of the cost savings and that will enroll small businesses.

Seventy PPOs are now in operation in various parts of the country, according to the American Medical Care and Review Association, a PPO trade group.

A key element in the operation of a PPO is rapid access to data on charges by hospitals and physicians. The PPO keeps tabs on tests, length of hospital stay and whether surgery was performed in the most cost-effective manner—hospital, outpatient or doctor's office.

Alvin Ankrum, executive director of the Baltimore PPO, says such close monitoring of costs helps PPOs identify the most cost-efficient hospitals and physicians while keeping providers generally "on their toes."

"The point," Ankrum says, "is that you don't have to discount the price of quality health care, but you can have quality health care at discount prices."

He notes, for example, that the average number of annual hospital days for 1,000 eligible patients in Baltimore is 800, while it is 325 at a West Coast hospital of the Kaiser Foundation.

Macnab hopes that price pressures imposed by PPOs and other competitive measures will help curtail medical inflation generally. (The costs of health care—hospital, physician, dentist, nursing home, drugs—rose an average of 14 percent annually from 1977 through 1982, according to government figures. Preliminary figures indicate that last year, costs rose only 6.4 percent—but that was still much higher than the 3.8

Legislation to remove potential state barriers to the formation of PPOs is pending in Congress.

percent rise in the consumer price index.)

Throughout the country, business people share Macnab's hopes.

Representatives of 50 individual companies and of coalitions representing another 550 firms gathered in Washington last month to obtain information on PPOs at a conference sponsored by the U.S. Chamber's coalition clearinghouse.

"Business is anxious—almost desperate—to cut health costs," says Jan Peter Ozga, director of the clearinghouse. "In addition, hospitals, physicians and insurance companies are receptive to fee negotiation, so they can retain and expand their market shares. The PPO is one of the early manifestations of the kind of health care competition that employers are fomenting."

A key point discussed at the conference was the difficulty posed in some 30 states by laws that could be interpreted as discouraging formation of PPOs. Those laws deal in varying degrees with the right of patients to choice of a health care plan and the right of qualified physicians to reimbursement through insurance coverage.

Legislation to remove potential state barriers to the formation of PPOs is pending in Congress. Rep. Ron Wyden (D-Ore.), sponsor of a measure to preempt the state laws that might interfere with the preferred provider approach, told the conference: "It would be a serious mistake to limit, in any way, the range of innovative, competitive financing arrangements that are beginning to emerge."

WHERE THERE ARE no such barriers, the growth of PPOs has been explosive. Twenty-eight are in operation in California, and more are being formed.

When the South Florida Health Action Coalition of Miami decided to invite hospitals to submit PPO proposals last fall, there was only one PPO in the city.

But the coalition received 37 PPO proposals in response to its invitation, demonstrating the degree to which purchaser pressure can stimulate the health care system to begin thinking competitively.

Individual companies, like Eastern Airlines and BellSouth, as well as government bodies like the Dade County Public Schools are now free to negotiate their own arrangements with 18 hospitals the coalition selected as preferred providers.

Other coalitions are seeking other routes to lower health costs. The 48-member Lehigh Valley Business Conference on Health Care, based in Bethlehem, Pa., is one of a number of coalitions emphasizing "wellness" programs among members' employes. The emphasis is on nutritional, exercise and other programs that enhance good health. The conference is also developing a data base for designing benefit programs.

While the PPO approach has been receiving increasing attention, the American Medical Association, with 250,000 physician members, takes a cautious approach. Dr. John J. Ring, an AMA trustee, says the association "favors a neutral public policy and fair market competition between all kinds of delivery systems," but he adds that he has seen no evidence thus far that PPOs reduce costs.

And business efforts to curb health care costs have not been without sharp controversy on some aspects of the drive for more competition. In Arizona, the 1,500-member Coalition for Cost Effective Quality Health Care and the Arizona Hospital Association have clashed over the coalition's support for creation of an independent state agency that would, among other things, control hospital costs and construction plans.

The coalition is gathering signatures to put the question to voters. The Arizona Hospital Association has charged the coalition with a double standard in advocating controls on health care but not on other businesses.

JOHN CAMPANELLA, president of the Sperry Corporation's Flight Systems Division and a leader of the coalition, says employers fear an unwarranted hospital construction boom that would cost consumers $361 million in 1987.

Experts estimate there are 88,000 surplus hospital beds throughout the country today—a situation they say has contributed to hospital overuse, thereby helping to increase costs.

The American Hospital Association agrees there has been overbuilding, but it places much of the responsibility on government and private insurance practices. "If people come to us for hospital care, we'll provide it," says AHA Executive Vice President Jack Owen. And, he says, there was a bull market in hospital care as a result of insurance practices that did not focus on limiting it to cases of necessity.

Overuse is now less common, he says, because insurance companies often pay on the basis of diagnosis, rather than simply paying cost-based hospital charges, and because the Medicare system has changed. In the past, Medicare, too, simply paid costs; now it pays fixed fees. In October, 1983, the first month under the new system, the average length of stay of hospital patients over 65 was 5.1 percent shorter than in October, 1982.

While some businesses are carrying the fight for cost containment, others are finding that business' goal of lowering health insurance costs offers new marketing opportunities.

For example, Pacific Mutual Life Insurance Company, based in Newport Beach, Calif., has developed what it calls its "Premium Trimmer" plan for companies with 3 to 34 employes.

"This new program is very much market-driven," says James G. Hostetler, Jr., marketing manager for the company's multiple employer trust

National Health Expenditures

Source: Health Care Financing Administration

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group. "It was designed specifically for smaller employer groups that either could not afford or did not desire the higher-priced, more traditional group health plans."

Hostetler says the plan offers average premium rates 20-25 percent lower than those of many traditional group health programs.

"If an employe voluntarily selects more cost-efficient forms of medical treatment, we will reward that individual by paying a larger share of his or her claim costs," he says.

For example, the coverage would pay 70 percent—after a deductible—of hospital costs for recuperating patients but would pay 90 percent with no deductible if that patient transferred to a lower-cost facility, such as a convalescent hospital, rehabilitation hospital or nursing facility.

He adds that the goal is not to reduce premiums by cutting benefits or providing inadequate protection but to offer an alternative that rewards individuals who elect lower-cost care.

"When employes help to lower costs, we'll pick up more of the tab," Hostetler says.

A SIMILAR APPROACH is behind the overhaul of the health benefits plan for salaried employes at Goodyear Tire & Rubber, where average medical coverage costs per employe rose from $777 in 1975 to $2,160 last year.

Frank Armstrong, manager of health services for Goodyear, says, "Our overall strategy is to get the employe to become more aware and involved in the purchase of health care."

The company now has eliminated first-dollar coverage from its health insurance for salaried employes—there is a $100 deductible. Also, it now requires cost sharing—the employe must pay 15 percent of costs above the deductible, up to $1,000.

A special feature of the plan rewards employes who file no insurance claims—$300 goes into a "medical bank account" each year for each employe. The worker can draw on the money to pay for a dental care plan or can use it to cover the newly imposed deductibles and cost-sharing requirements.

Money that the employe does not use is carried over to the next year. Any funds not used by the end of that year are paid to the employe in cash. The payment is taxable income for the employe.

The company, in addition, is considering including HMOs as an option in its health coverage. It also is exploring the possibility of giving employes financial incentives to use PPOs that subscribe to cost-efficient practices, Armstrong says.

Armstrong is referring to a typical PPO, which provides medical services. There also are PPOs that provide administrative services, instead.

Benefit Panel Services, a new small business based in Los Angeles, is an entrepreneurial PPO. It performs purchasing-agent functions, bringing together buyers of health care services and physicians and hospitals willing to provide the services at an agreed-upon price.

BPS says it can cut costs by, among other things, negotiating rates as much as 20 percent below the market levels and monitoring costs through an independent review board of physicians.

"We earn our keep by charging the payer—an insurance carrier, self-funded company plan or individual—for our services," says Mark Jasper, the company's president.

The key to the success of the company, Jasper says, is estimating the additional volume of business his "payers" will bring to the providers. He explains: "You go to a hospital and say, if I give you 10 percent more volume, how much is it worth to you?"

Los Angeles has an oversupply of hospital beds, Jasper says, and thus provides a competitive environment in which health care purchasers can seek the most favorable arrangement.

Competition is also a factor in the growth of outpatient clinics, which are sometimes known as urgent care or walk-in facilities.

Medical Care International, a for-profit operator of 40 outpatient surgical facilities nationwide, is an example of how businesses have been created as part of the growing new era of competition in medical services. Medical Care International's Fairfax Surgical Center, in a Virginia suburb of the nation's capital, can perform 275 surgical procedures that do not require overnight hospitalization.

Eleanor Latimer, the company's marketing director, says fees ranging from $300 to $700 are about half those that would be charged by a hospital on an inpatient basis.

Such clinics are able to generate cash with a much smaller capital investment than hospitals and with lower variable costs.

A typical MCI outpatient clinic is 10,000 square feet in size. It has three to five operating rooms, capable of handling 6,000 to 10,000 patients annually, and costs $1.5 million.

Another fast-growing area for private-sector participation in health care is home health services. This industry now has revenues of $2.5 billion a year, is growing at an annual rate of 40 percent, and is expected to be three times

PHOTOS: KEN TOUCHTON

Marketing Director Eleanor Latimer says Medical Care International's outpatient clinics charge much less than hospitals do for similar surgery on an inpatient basis. Below: surgery at an MCI clinic.

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its present size by the end of this decade. The field has drawn companies like Continental Health Affiliates, which was founded in 1976 and had revenues of $14 million last year.

Services include nursing, home delivery and administration of drugs and other medicines, patient monitoring, provision of sickroom equipment and supplies, dialysis treatments and insurance claims management.

"Hospitals are under increasing pressure to limit patient admissions and the length of stays," Continental Health says, "and advancements in medical technology now enable more sophisticated home therapies."

Although medical technology as applied to home care is among the newer competitive aspects of health care, one of the pioneering moves away from traditional medical practice is receiving renewed attention.

Enrollment in health maintenance organizations grew 15.3 percent in 1983, the largest jump since the 15.8 percent of 1978.

In an HMO, physicians receive a fixed salary, regardless of the number of patients they see.

To at least one health care coalition, however, the real problem is not in the size of payments to hospitals or physicians.

The Wellness Council of the Midlands, formed by more than 70 corporations in the Omaha area, says: "The problem is us. On balance, too many Americans are afflicted with health problems that are directly related to their freely chosen lifestyles."

WELCOM's sole purpose is to "promote wellness programs at the work site." The coalition says: "As more employers offer quality programs, not only will more individuals benefit, but spiraling costs of health care can be better contained."

And the Trident Industrial Health Coalition of Charleston, S.C., says that although overhaul of benefits programs is needed, that is a short-term response to medical cost problems.

"Personal health knowledge and action is the answer to reducing health care expenditures," the group says. "In the long term, these strategies of showing individuals how to keep themselves healthy will have big pay-offs."

Trident's program includes a "health risk appraisal" for employes of member companies. It is designed to determine the extent to which an individual might be subject to major diseases and the extent to which the risk can be eased through "good health habits."

Many of the appraisals express the results to workers in terms of ages. For example, a 42-year-old employe might be told that, because of his physical condition and health habits, he has a health age of 50 but, through changing his habits, could lower it to 40.

While recognizing the contribution of such programs to overall physical improvement of individuals, health industry economists also believe that changes within the medical profession itself will further the trend toward more competition.

While U.S. population growth has slowed, an increasing number of new physicians enter practice each year. The nation had 377,000 practicing physicians in 1965. There were 450,000 in 1980, and there will be 600,000 in 1990.

The current forecast is that 245 physicians per 100,000 people will be in practice in 1990, compared with 177 in 1975.

This changing ratio is viewed as one of the key incentives for the formation of PPOs based on a more competitive approach to the practice of medicine.

Overall, the outlook is for increasing competition among health care providers and stepped-up business activity to translate that competition into reduced medical inflation.

The process will not be without its conflicts and even damage to some of the competing interests involved. Some business people, for example, insist that reduction of hospital costs requires a rollback in the number of hospital beds now available and severe limitations on future construction. Division of medical practitioners into conventional, PPO and HMO operations could cause divisions within the profession.

But with business' cost of health insurance up 250 percent in the last decade, the most important step toward eventual cost containment may already have been taken.

That, in the words of the Koppers Corporation's Macnab, came when business, by demanding more competition, finally got the attention of the health care providers. □

To order reprints of this article, see page 89.

How Major Health Care Plans Work

	Standard Health Insurance*	Preferred Provider Organization	Health Maintenance Organization
Premium/ Rating**	Insurer sets premium on basis of degree of coverage, experience rating of group.	Negotiated premium, usually discounted. Covered-group experience rating.	Prepaid plan, community-wide experience rating.
Payment To Providers	Based on policy of usual, customary and reasonable fees. Deductible generally involved.	Fixed fee at discounted rates under terms of PPO agreement. Little or no deductible.	Physicians are salaried employes of HMO or are paid flat fee per patient per month. Usually nondeductible.
Type Of Coverage	Varies with type of plan; the more comprehensive the coverage, the higher the premium.	Varies. Benefits can be tailored to each covered group.	Comprehensive coverage emphasizing preventive care.
Choice Of Provider	Patients may seek care from any physician or other provider who qualifies under plan.	Patients have financial incentive to use "preferred" provider, but may choose not to and pay any charge differentials.	Patients are limited to providers employed by HMO.
Type Of Medical Practice	Physicians may be independent practitioners or part of group practice, but basis is fee for service in either case.	Participating physicians may or may not practice in same location.	Participating physicians often practice in same location as part of multi-specialty group within HMO. (Physicians who are members of independent practitioner associations continue their independent practices in addition to treating members of an IPA plan.)

*Commercial health insurance and the nonprofit Blue Cross and Blue Shield plans.

**The rating is a measure of the extent to which a group of individuals covered by a plan utilize benefits of that plan. Premiums are based on the rating.

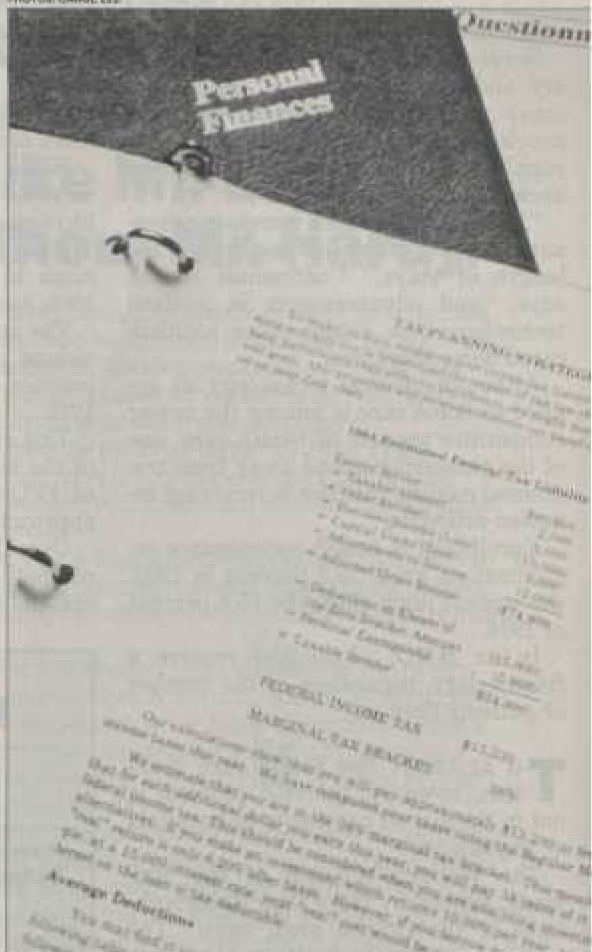
Prepared by Clearinghouse on Business Coalitions for Health Action, U.S. Chamber of Commerce

A New Look In Financial Planning

Thanks to employers' benefits programs, more workers are getting professionals' help.

By Mary-Margaret Wantuck

PHOTOS: CAROL LEE



At the Consumer Financial Institute, t planning process embraces questionnaires, g setting and strategies for achieving those goa But, says Executive Director George Barbee, it up to clients to implement their own pla

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A personal financial planner may offer a measure of relief.

For example, a planner may tell you that an individual retirement account is in order, or that capitalizing on a hobby by taking a part-time job would be both financially and psychologically rewarding.

If your children will begin college in a few years, a planner may advise investment in low-risk savings certificates, money market deposit accounts or Treasury bills (avoiding stocks and bonds, because they fluctuate in value and you could be forced to sell at a low point). Another suggestion could be to transfer some income-producing assets to your children under the Uniform Gifts to Minors Act, saving you income taxes.

"Financial planning is no longer a fad," says William Hewitt, founder and president of Hewitt Associates, a Boston financial planning firm. "It's a legitimate consumer issue."

By the same token, planning is no longer the preserve of the rich. Individuals with incomes of $25,000 a year, or less, are now viable candidates for the service because of the many different savings and benefits plans employers offer, attendant tax implications and the surge in new investment products.

Recognizing this, an increasing number of corporations are offering financial planning not just to their top-level executives but to all employes.

"For years, companies have taken care of their Mercedes employes but haven't done much for the Fords and Chevrolets," maintains George E.L. Barbee, executive director of the Consumer Financial Institute, a financial planning firm that caters to the lower-rank employe. "Now they know that such a service is still affordable while including all employes."

Providing this service can be fruitful for an employer. Employes with increased financial savvy may be more inclined to join a company savings plan—and the company can reap sizable tax benefits if enough employes participate. With a better knowledge of their own finances, employes may be more understanding about the company's—realizing, for example, that expense accounts and budgets are not limitless.

A financial planner first gets a profile of an individual's finances, ranging from current cash flow and net worth to retirement and estate arrangements. He then prepares a plan to achieve specified financial goals and keeps in touch with the client after that.

Hewitt stresses "looking for credibility and credentials in a planner's background."

THOUGH AN individual's primary concern often is personal chemistry—finding a planner who is comfortable to work with—corporations, he says, mainly focus on a "high level of professionalism and the assurance that the plans developed are as technically accurate and as objective as possible. When a company selects a planner, it is on the hook for any recommendations a planner puts into action for an employe. So

is offered through correspondence courses, through programs in 55 colleges and universities nationwide and at the institute's headquarters in Denver. Each year, members must undergo 30 hours of continuing education. The institute has an active ethics committee that has censured members for unethical behavior.

The International Association for Financial Planning also focuses on ethics, maintaining a strict code—it has expelled members on occasion. Unlike the institute, its members are not exclusively financial planners but a potpourri of accountants, lawyers, insurance salesmen and investment brokers. The group has begun a registry that requires a certified financial planner designation and a minimum of three years involved in full financial planning.

John Hancock Insurance Company instituted financial planning for its employes last year. The company subsidizes 80 percent of the planner's fee; the employe pays the remainder. "We felt that if we paid the entire fee, we would attract a lot of curiosity seekers," notes Robert F. Thurrell, Jr., general director of corporate personnel.

"We've known for a long time that what most concerns employes as they near retirement is whether or not they have adequate financial resources. It is important for a company to quell that worry way ahead of time. We don't want to start counseling employes at age 60 or 65."

FINANCIAL PLANNING makes employes aware that they must decrease their reliance on employer-provided pensions and on Social Security, Thurrell adds. Hancock will let its employes consult a planner every five years—sooner if they are near retirement.

what it doesn't want is a specific product mix shoved in its face."

Benefits consultants advise companies to choose planners with no stake in the decisions employes make about their finances. "Doing so could leave a company open to backlash," warns R. Theodore Benna, executive vice president of the Johnson Companies, benefits and compensation consultants.

"If a company selects a planner that offers interested employes a particular tax shelter, and the shelter goes belly up, that's going to cause a lot of ill will, and the company could find itself in the middle of litigation, with employes suing the employer."

The financial planning industry is neither federally nor state regulated. There is no licensing examination, though the North American Securities Administrators Association has discussed having one. Almost anybody can hang out a shingle and claim financial planning expertise. All it takes is registering with the Securities and Exchange Commission.

"There are a lot of charlatans out there who do this just to sell insurance or stocks," says David E. Upton, a finance professor at Texas Technological University. Others might give inadequate advice to clients because of lack of expertise in certain areas. Unfortunately, there is little if any legal recourse for victims of bad advice that falls short of fraud.

Who is good and who is not? Members of the Institute of Certified Financial Planners must be graduates of the College for Financial Planning, which has a rigorous two-year curriculum and

American Can Company offered financial planning, as one of its benefits options, to its 9,000 employes for the first time in 1982; 14 percent took advantage of the service that year. The company shares the cost equally with its employes.

"We're always on the lookout for new and responsive benefits that can help the employe," says Robert H. Felder, the company's director of corporate benefits. "It's clear to our employes that we are interested in their welfare, trying to give them products that they couldn't buy on the outside at the same reduced price."

Adds Robert B. Bogart, the managing director of corporate human resources: "We want people to be aware that employe benefits are a three-way partnership. The government is doing

its part by giving tax-exempt or tax-deferred status to benefits plans; corporations are offering a spectrum of options through flexible benefits programs; and employes must understand the importance of what is being offered to them and act on it."

Procter & Gamble's benefits choices include financial planning, but the employe must pay the entire cost. Linda Ulrey, a company spokeswoman, explains: "An employe will earn an amount of cash annually based on a percentage formula of years of service with the company plus base salary from the previous fiscal year. A worker then can take this cash and use it to purchase whatever benefits suit his individual needs. Financial planning has proven a popular choice."

ALL THREE OF these corporations have selected the Consumer Financial Institute as their employes' financial planner because of the low fee—a total of $175 per individual—and its independent, nonaffiliated nature and absence of product selling.

"Our low fee comes from having a centralized staff with all confidential client data coming in from all parts of the country to one location via the mail," Barbee explains. "We don't have people sitting around waiting for someone to walk through the door. We are heavily technology-supported with computers and word processors. Another important aspect is that we use a self-administered questionnaire that is updated each year to reflect changes in the various financial laws and is written in layman's terms."

The institute helps clients set up specific objectives and plan strategies to achieve them. But it is up to the employe to implement the plan—the actual buying or selling of some product—and have that plan reviewed periodically. Clients are encouraged to see their lawyers, accountants, stockbrokers or insurance agents for implementation.

Generally, financial planners charge between $75 and $125 an hour; 10 hours of consultation is considered the bare minimum. "Bells and whistles should go off if a planner tells you he will give you advice for nothing," Barbee says.

He offers some precautionary measures. Always ask planners whether they are fee-based or take commissions on products sold. If the latter is the case, just what products do they represent and is there a significant difference in the commissions they receive on the various products?

According to the U.S. Commerce Department, only 5 percent of the population is financially independent at age 65. Another 22 percent must continue working; 28 percent depend on public charity, welfare or Social Security; and 45 percent rely on relatives for some or all of their retirement needs.

It would appear that there is a great need for financial planners. As Hewitt Covington, general counsel for the International Association for Financial Planning, says, "It sounds hackneyed, but financial planning is the wave of the 1980s." □

PHOTO: STEVE GOLDBLATT

The 401(k) plan appeals to big and small firms, says creator R. Theodore Benna.

The Neglected 401(k)

It has been called one of the most commonly overlooked money management tools available to employes.

The 401(k) plan combines the features of a deferred profit-sharing plan and a thrift plan. The employe's contribution—usually 6 to 10 percent of annual wages—may be matched in full or in part by company contributions that are deductible for the firm. Taxes are deferred on the invested funds. Pending government regulations would allow withdrawals for home buying, medical bills and college education expenses.

R. Theodore Benna, creator of the original 401(k) plan—called CASH-OP—and executive vice president of the Johnson Companies, a benefits and compensation consulting firm, says that the company has installed more than 300 such plans for businesses ranging from major corporations to some with as few as 10 employes.

A study of 900 major firms showed that approximately 60 percent either have implemented a 401(k) or are in the process of installing one. Benna predicts that 25 percent of the nearly 110 million U.S. workers will be covered by a 401(k) by the end of this year.

Yet, even with all its attractions, the 401(k) plan has been greeted with caution by many employes. "I think employes are intimidated by the complexity of retirement benefits," notes Jack Blankinship, a financial planner. "I've never read a retirement booklet that was decipherable by anybody. People are also unwilling to put their money into something they perceive to be illiquid."

Robert H. Felder, director of corporate benefits for American Can Company, agrees that the whole retirement benefits structure, including corporate savings plans, is "difficult to get across to employes. There are probably a lot of companies that have not done a good job communicating to their employes the advantages of saving pretax dollars."

Offering financial planning is one way companies can alert their employes to the pluses of a 401(k). Translating information about retirement benefits into understandable prose is another. Graphic communications tools can help as well. At American Can Company, an employe can use a wheel chart to line up his contribution rate with his salary and find out how much he will save in taxes over the course of a year, what the company match on those contributions will be, and how large the contributed amount will grow in 5, 10 and 20 years.

According to Benna, "there are two critical facets to a plan's success. One is a design tailored to an employer's wage levels and accounting system. The other is effective communication with employes about the plan."

You can have the most brilliantly designed plan in the corporate world, he adds, but if no one takes advantage of it, its value is nil.

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by Ted Nicholas

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Molding Managers For The Tests of Tomorrow

Profound changes are resulting in a reshaping of business education.

By Sharon Nelton

PHOTO: STEVEN GOLDBLATT

PHOTO: BOB MILES

Wharton's Russell Palmer (left), leaning on a trading post from the old New York Stock Exchange, and L. William Seidman (above), in front of Arizona State's business school complex, assign priority to developing skills managers need in international business.

IF THE VIEWS of some of the newest deans of business schools are an accurate barometer, the nation's B-schools are engaged in an all-out effort to gird tomorrow's managers for an era of fierce global rivalry.

"The challenge to American business right now is to meet world competition," asserts L. William Seidman of Arizona State University, home of one of the largest business schools (nearly 10,000 undergraduates and 2,000 graduate students).

That challenge faces businesses of all sizes and will have to be met, Seidman says, "by improving our efficiency, by improving our strategic thinking and by doing a better job of supplying the customer with what he wants."

"We've had it our way for a long time," concurs Russell E. Palmer of the Wharton School at the University of Pennsylvania. "We didn't have to learn other languages. We had managers overseas who understood English, and we expected everyone else to communicate in our language. We didn't have to learn, necessarily, to deal with nationals in other countries and the customs they might have.

"In today's world, we're going to have to learn those things and to be very mature in an international business sense." And that, he says, is going to take some "intensive education."

Seidman and Palmer are among six deans whom NATION'S BUSINESS interviewed at length about the greatest tests now facing American business and about how business schools expect to help meet those challenges. The others: Elizabeth E. Bailey, Graduate School of Industrial Administration, Carnegie-Mellon University; Colin C. Blaydon, the Amos Tuck School of Business Administration at Dartmouth College; Jack R. Borsting, the University of Miami School of Business Administration; and John P. Gould, the University of Chicago Graduate School of Business.

Borsting and Seidman have been on the job a little more than 1½ years; the rest, less than a year. At 62, Seidman is the senior member of the group; Blaydon, 43, is the youngest.

Collectively, these shapers of tomorrow's business leaders bring a wealth of experience in business and government to their jobs. Borsting was assistant secretary of Defense before he went to Miami, and he was provost of the Naval Postgraduate School in Monterey, Calif., before that. Seidman, former vice chairman of Phelps Dodge Corporation, served as President Ford's assistant for economic affairs and was co-chairman of the White House Conference on Productivity last September. Bailey made a mark on deregulation as vice chairman of the Civil Aeronautics Board, and she created and headed an economics research center for Bell Laboratories.

Blaydon interrupted his academic career for public service on several occasions, once to be deputy associate director of the U.S. Office of Management and Budget. Gould took a year out from Chicago to serve as special assistant for economic affairs to then Secretary of Labor George P. Shultz, one of Gould's predecessors in the dean's chair. Palmer, in business for 27 years before joining Wharton, was chief executive officer of Touche Ross International, one of the Big Eight accounting firms.

If preparing American business to succeed in the global marketplace is uppermost in most deans' minds, the challenge posed by the technological revolution runs a close second. And they see that revolution not merely in terms of bringing students up to speed on the latest computers but as the tumultuous birth of an information economy.

Although the industrial revolution affected only a few nations when it began in the 18th century, they point out, the technological revolution will have a sharp impact on all of today's industrialized nations. "There are going to be significant political shifts at both the domestic and international levels," says Chicago's Gould. "In some ways, there may be a period of greater political instability than has been the case in the past."

THE DEANS agree that managers are going to have to be able to deal with a wide variety of social permutations, ranging from the restructuring of basic industries and the displacement of workers to shifts in lifestyle as greater numbers of people work at home, using personal computers.

PHOTO: DAVID VALDEZ

PHOTO: GENE PUSKAR

Carnegie-Mellon's Elizabeth Bailey (above) and Tuck's Colin Blaydon, beside an Einstein statue on a Washington visit, stress technology.

"Generally, it seems that we are entering a period of continuing and significant change," says Gould, "and if there were a single word that had to be used to characterize what managers will need in order to deal with that, I think it's flexibility."

Rapid change is also fomenting an increase in entrepreneurial activity, notes Elizabeth Bailey, because small companies "have flexibilities that just are lacking in larger firms." She observes an "incredible demand" on the part of students for more education in entrepreneurship. Not all of them want to start their own businesses. Many, she says, "want to know how to be entrepreneurial within the larger corporations."

As Gould explains, more and more companies are organizing strategic or small business units that have a large degree of autonomy. "Each of those units is in effect creating a greater demand for managers that are, in a way, playing the kind of role that only a CEO would have played in the past, but they're doing it for a smaller part of the business."

As they chart their schools' futures, the deans are taking into account some of the other business challenges that they see: Improving the relations of business, government and labor; increasing productivity; coping with demographic shifts—such as increasing numbers of older persons—that have marketing, employment and other business implications; and adjusting to workers whose aims in life are different from those of the past.

Today's workers, Seidman notes, "want a sense of achievement, of participation, of doing a job that has merit beyond the fact that they're simply getting money for it."

Wharton's Palmer sees a need for greater emphasis on interpersonal relationships. "Business managers are going to have to interact in more effective ways," he says.

Business school student bodies are changing, too. Gould, for one, thinks the schools are getting better students than they got 20 years ago. As career opportunities have diminished in the humanities and some sciences, they have opened up in business. That, coupled with business' new entrepreneurial orientation, he says, is making business more attractive to "the very best students in the nation."

And whereas two decades ago some business schools would not even admit women, females now make up at least 20 percent of many enrollments. A third of the 600 M.B.A.s awarded at Wharton last year went to women (compared with 15 out of 450 in 1969). At Miami, a whopping 41 percent of the business students are female.

While having women in the classroom does not affect the curriculum, Colin Blaydon at Tuck says their presence does result in some "qualitative modification in the style of discussion, perhaps, which would make it better reflect the business community and the society in which the graduates are going to be living and working. It simply has to be an improvement."

Beyond that, he observes, "The goals of our women students and the directions of their business careers look remarkably like those of their male classmates and colleagues."

WHEN ASKED about the percentage of Spanish-speaking students at his school, Miami's Jack Borsting chuckles: "They may be a majority." He is not far off the mark; a check shows the minority population—including blacks, Hispanics, and other ethnics—to be 51 percent.

Twenty years ago, members of minority groups were often skeptical about efforts to recruit them to business schools because there was little evidence that significant career paths would be open to them, according to Gould.

Now, he reports, a number of minority alumni have gone on to very successful careers and, in trying to recruit new minority students, "we can point to a real track record."

Its isolation in rural New Hampshire means Tuck has to sell itself harder to attract minorities. But Tuck, too, has some success stories among its minority alumni and is counting on them to

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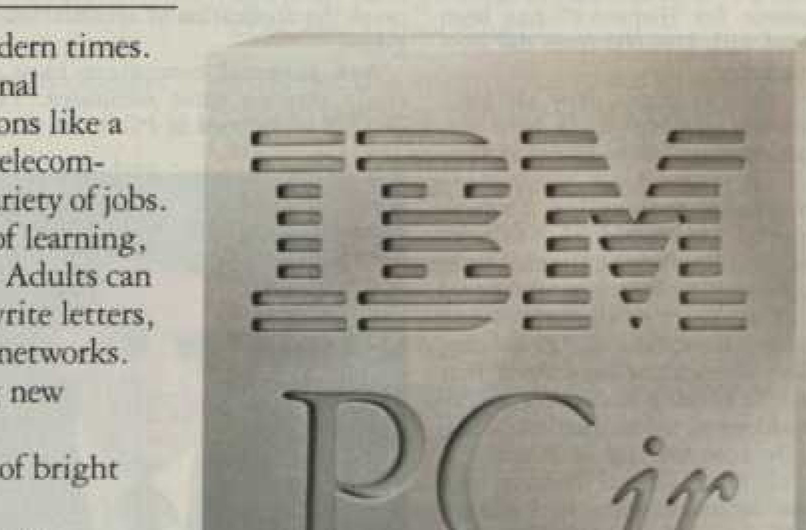

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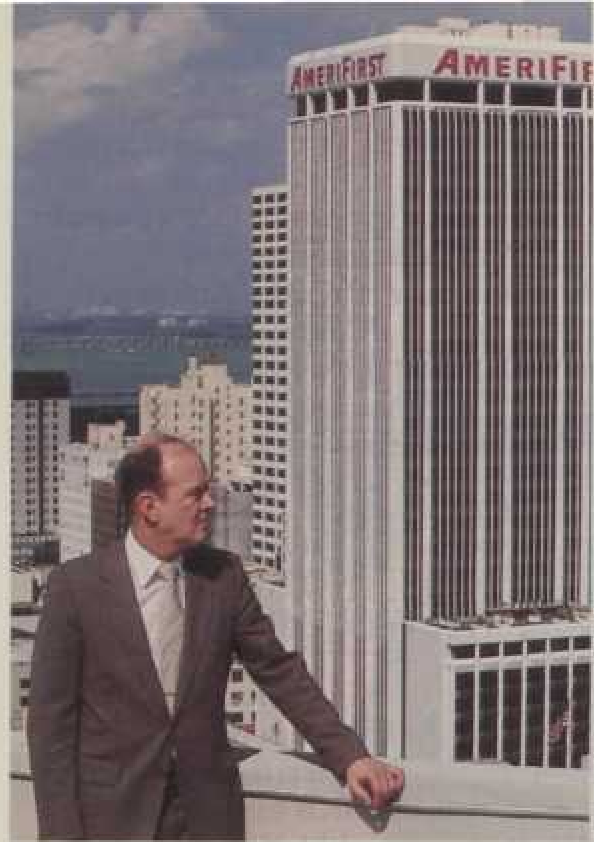


PHOTO: LEN KAUFMAN

Miami's international financial district stimulates banking studies at his school, says Jack Borsting.

help persuade potential students that Tuck is the place to be.

Along the same lines, Arizona State has formed a Hispanic Business Alumni Association. It has also adopted the practice followed by other schools of reaching high school minority students with programs urging them to consider business careers. Its "Career Options in Business for Hispanics" has been supported with $100,000 from the Revlon Foundation.

Given the challenges, how are business schools gearing up to help students and business meet them? A sampling:

International competition. Eschewing special international business courses, Jack Borsting at Miami is looking to the day when the international aspect of a subject will be woven into every class. He speaks of "globalizing the whole curriculum" and finds that approach in keeping with the university's ambitions as an international institution. Because the city of Miami is a center of international finance, the business school expects to build on strengths it has already established in that field, including its International Business and Banking Institute.

Classes start in May for an M.B.A. program under the newly established Joseph H. Lauder Institute of Management and International Studies at Wharton. The program will combine management skills with cultural studies and foreign languages, with half the students to come from the United States and half from other countries. The institute, founded last fall with a $10 million gift from the Estée Lauder, Inc., family, will also sponsor international research and advanced education for executives.

In addition, Wharton participates in graduate exchange programs with business schools in France, the Netherlands, England, Sweden and Spain. Chicago also provides exchange opportunities with other countries, but Gould says this international emphasis is not new. It emerged as a need in the early 1960s and the school responded, he says, with a program that gives business students an international background in such areas as law, economics and political science.

Technology. A major thrust at Carnegie-Mellon is course work that gets into decision-support systems—the use of the computer to help make management decisions. The school is also emphasizing robotics and other high technology in joint programs with the university's engineering and public policy departments.

The University of Miami recently established the Intelligent Computer Systems Research Institute to study and teach the application of artificial intelligence.

And personal computers have already invaded some campuses. Tuck last fall introduced 50 PCs to be shared among its 300 students, and, says Blaydon, the microcomputer is being integrated into the curriculum. ASU installed 125 personal computers in a new business school building dedicated in March.

PHOTO: UNIVERSITY OF CHICAGO

In planning for the future, business schools should not lose sight of the basics, says Chicago's John P. Gould.

Entrepreneurship. Having launched enterprises of their own, Borsting and Seidman know firsthand what it means to be entrepreneurial. Borsting started and sold a software company; Seidman has been involved in a number of ventures, including a radio network. (In a spirit of self-deprecation, Seidman mentions that a company he started that waxed people's skis for them was undone when "they invented skis that didn't need wax.")

Universities use their resources not only to help students learn to be entrepreneurial but also to help start new local businesses, assist existing small companies and help larger corporations become more innovative. As an example of the last, the Wharton School's Entrepreneurial Center expects to hold a three-day conference next fall aimed at helping high tech firms recapture the entrepreneurial spirit that sparked their first growth.

Last fall, Carnegie-Mellon joined with the University of Pittsburgh to create the Enterprise Corporation of Pittsburgh to foster new business growth in the area. The University of Miami, which already offers courses in entrepreneurship, plans to start an institute for innovation and entrepreneurship later this year. And in what may be a first, Borsting and Miami's engineering dean will conduct a joint "deans' seminar" on entrepreneurship for both business and engineering students.

As the joint seminar indicates, today's business schools lean heavily toward interdisciplinary approaches.

The mix of law and business has been fairly common, according to Palmer, but Wharton is looking into other combinations, particularly medicine and business, which could lead to better hospital management. Other programs combine business with engineering, dentistry or journalism. And last year, one woman graduated with a Wharton M.B.A. and a degree in veterinary medicine.

The need to keep managers up-to-date is another theme in today's business schools; many of them offer seminars and other non-degree programs for executives.

Despite the new twists to business education, the deans are firm about teaching the basics. In reevaluating the Chicago approach, which is strong on research and the fundamentals, Gould says that "we are increasingly convinced that we really are on the right track. We have a substantial amount of market evidence that whatever we're producing is in great demand. The same firms come back and want more M.B.A.s."

As Bill Seidman puts it: "The primary

responsibility of an educational institution is to make sure that the students know, understand and are very soundly grounded in the fundamentals, whether it's statistics or marketing or computers. In football terms, they've really got to know the blocking and tackling before they get into the fancy plays."

RAISING MONEY and maintaining links with business and alumni are time-eating activities that no dean can escape. Often, the activities merge. Chicago is in the midst of a campaign to raise $21.5 million to be used in part for attracting topnotch faculty talent and providing student aid and fellowships. The Chicago Mercantile Exchange, Sears, Roebuck and Company and alumnus Wallace W. Booth, president of Ducommun, Inc., in Los Angeles, have already endowed three of the six chaired professorships sought by the campaign.

At ASU earlier this year, Seidman established the "Dean's Council of 100," made up of Arizona business leaders who have agreed to pitch in their time and $750,000 to help the school start a new national computerized business forecasting project and other programs.

As the Pentagon's top financial officer, Borsting dealt with a budget of $200 billion and had 4,000 people working for him. But he finds that being dean of a business school, with a budget of $6 million and a faculty of 100 plus support staff, is just as hard.

"I have to do a lot more things myself," he says. "I am understaffed. I really don't have the money to do the things I would like to do." A dean has to go out and get the money, he says, and "getting the money is not easy."

How do the deans envision the kind of managers or specialists they want to turn out?

"Too often," Palmer contends, "the business schools of today are turning out a product with what I would call a business arrogance that says, 'Here I am. When do I take over?' " Instead, he says, they "should be turning out people who are grounded in business principles and have the determination to face the business realities of today."

"People who can manage change well" is what Elizabeth Bailey is looking for. Individuals "with strong enough training to be able to be practically useful right at the very start of their career," answers Blaydon.

Borsting offers these suggestions: "They would be innovative. They wouldn't let the bureaucracy dictate what they should be doing. They would try to change the bureaucracy. They would work very hard." Then he adds: "They would realize that their education is not over when they graduate with an M.B.A." □

How Do Deans Manage?

Since deans of business schools have so much influence on developing the managers of the future, NATION'S BUSINESS was naturally curious about how they would describe their own management styles.

"Participative" was a word quickly chosen by nearly all of them. Says Russell E. Palmer of the Wharton School at the University of Pennsylvania: "My job is to lead in accomplishing the collective vision of a group of people, and so my style is very participative and very collegial."

"I really like small groups and I like to get everybody involved," explains Elizabeth E. Bailey of Carnegie-Mellon University. "I get happy when somebody else starts to 'own' something that matters to me."

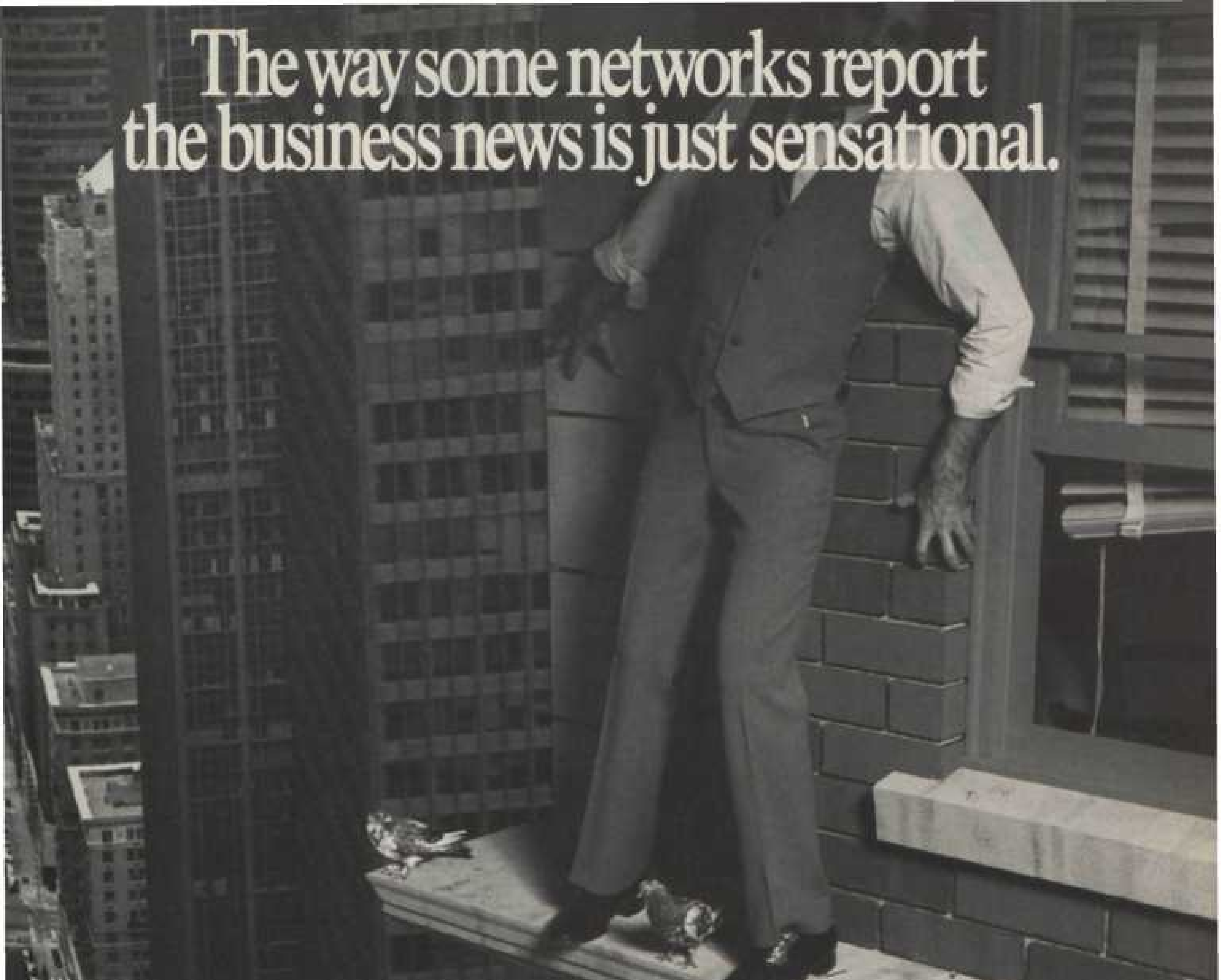
The participatory aspects of managing a business school remind Jack R. Borsting, now at the University of Miami, of his days at the Pentagon, where "you didn't just order things to happen. In fact, you ordered things to happen and they usually didn't happen. In fact, many times you even agreed on them happening and they still didn't happen. It was just like a university!"

"A dean in a way acts to serve the faculty rather than the other way around," replies John P. Gould of the University of Chicago. With a "world-class faculty like this one, you pay a good deal of attention to the kinds of things that they would like to achieve and then look for ways to make it happen."

L. William Seidman, of Arizona State University, who has a reputation among staff members as a good listener, says that "when you don't listen, it can be very painful." He likes his people to put the options in front of him and discuss them thoroughly before a decision is made.

"I learned along the way somewhere that if people participate, you'll learn a lot," he says. "Two, they'll be much more enthusiastic about the decision, even it it's not in their favor. And three, they'll be much better able to carry it out if they know how the decision was made.

"I learned all those things by not doing them to begin with."



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NJ/E 5

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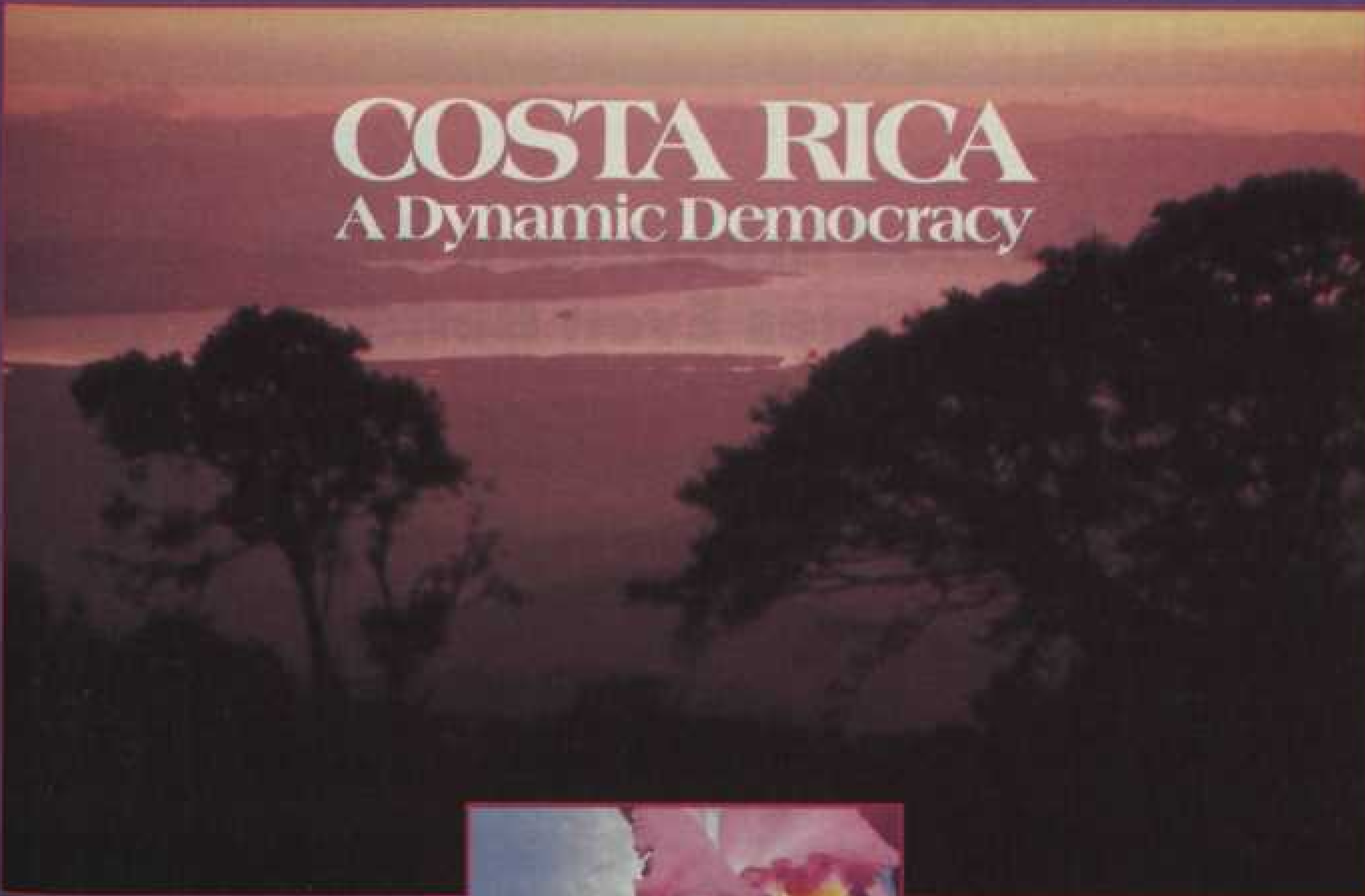
A Dynamic Democracy



A Good Investment Area Becomes Even Better

AMERICAN BUSINESS interests that are able to implement provisions of the Caribbean Basin Initiative are finding Costa Rica emerging as a potentially profitable and secure investment and trading partner.

This small, dynamic democracy has long attracted American interests and individual investment. Among the factors most commonly cited are:

- A long and firmly established democratic government based on free elections and a multiparty system.
- Deep-seated friendliness, at all levels, from personal through government, toward North Americans.
- An institutionalized and respected legal system founded on constitutional guarantees for all human rights, a respect for private property and equality before the law for foreigners as well as nationals.
- A strong middle socio-economic class.
- A constitutional prohibition on a standing army.

The president of Costa Rica, Luis Alberto Monge, halfway through his sole four-year term, said recently, "To defend our peace and liberty, we do not ask for military aid. We look for economic cooperation to successfully carry out programs of increased production and export. We seek cooperation from government institutions, private foundations and above all investments from the private sector of North America."

In that same speech, delivered at the Seventh Annual Conference on Commerce, Investment and Development in Miami last November, he made two other statements that local leaders point to in promoting Costa Rica: "Costa Rica has proven that democracy can win the battle of production and overcome the monster of poverty." In direct reference to the CBI, he said, "It will be proven that, even if for now it does not mean a balanced commercial relationship, the strengthening of our economies will also improve our capacity to buy and to pay, and we will become better clients of the United States than we are now."

Among the business-related factors which have made Costa Rica an attractive investment opportunity in the past, and which now enhance the country's position as a competitor for CBI-stimulated relationships with U.S. business, is the ability of the private commercial, industrial and agricultural sectors to speak out and be heard. Chambers and associations, including a strong Costa Rican-American Chamber of Commerce, abound. Other organizations, such as CINDE (The Costa Rican Coalition for Development Initiatives), cut across sectors of the business community for membership and support in efforts to strengthen public and government awareness and understanding of the need for a strong and reasonably regulated business environment. Such efforts to curtail potential excesses of bureaucratic zeal and ensure government understanding of businesses needs are not only tolerated but, in fact, meet with growing success in this unusual Central American democracy.

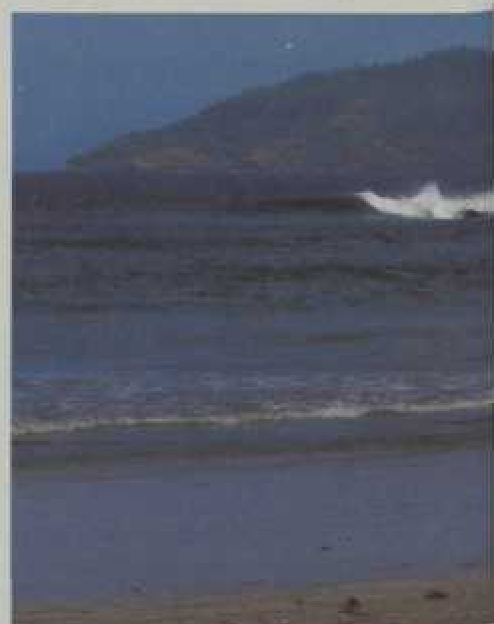
Business leaders offer other sound reasons for examining investment or trade opportunities with Costa Rica:

- A highly educated work force whose performance in regard to quality and productivity are on a par with or above average U.S. levels.
- Proximity to the U.S. market with maritime access to both coasts of the United States, along with good air and surface transportation systems.
- Excellent local and international communications including direct dial international telephone, direct telex, telegraph and access to high-speed data transmission links.
- High quality outside professional talent for legal, accounting, consultancy, advertising and medical advice.
- Rapid approval of residency and work permits for senior managers.
- Plentiful and well-distributed hydroelectric power and duty exemptions for export companies for other fuels, with the exception of gasoline.
- Outstanding climate and quality of life.

"Costa Rica, with its dynamic democracy and political stability, is poised to enter the 21st century as a fully developed nation, one that can ride the crest of the communications revolution," says U.S. Ambassador Curtin Winsor, Jr.

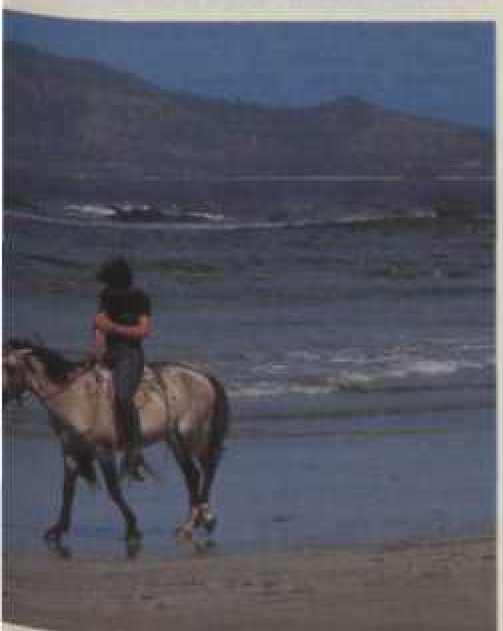
"President Reagan's Caribbean Basin Initiative provides an added incentive for both Costa Ricans and Americans alike. The opportunities exist, the challenge is here, and I urge you to learn more about this very unique sister democracy."

Legal. "Foreigners enjoy the same civil rights as do Costa Ricans under our constitution," points out Richard Lan-



kester, a prominent Costa Rican attorney and notary who practices with the Consorcio Economico Legal, a law firm specializing in matters of concern to foreigners investing in Costa Rica. In contrast to the situation prevailing in Mexico and the Andean Pact nations of South America, he adds, foreigners in Costa Rica may enter into business and make investments as freely as in the United States. Foreigners are restrained from activities which affect national security and from any political activity.

"Foreigners enjoy almost the same political rights and liberties as Costa Ricans, being limited in participating only in certain areas such as voting, office holding and other activities of



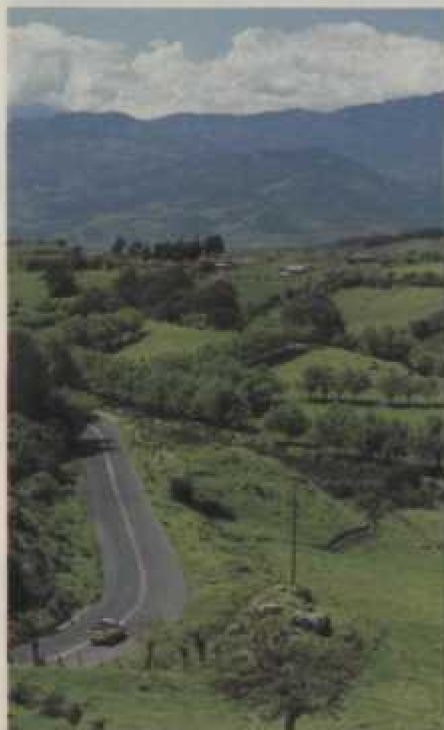
purely political matter," says Lankester.

In areas of law involving commerce and business organizations generally, most legal acts, concepts and principles recognized in United States law have identical counterparts or close equivalents in Costa Rican law.

Foreign companies may establish branch offices in Costa Rica, form wholly or partially owned subsidiaries, buy shares in local companies and form or enter into any kind of joint venture without facing impediments in Costa Rican law. In the same sense, foreigners may serve as officers or directors of corporations or as general or limited partners or trustees, own shares of companies, negotiate commercial documents or execute any kind of act or contract.

In structuring a local business entity or organization, it is U.S. law that frequently determines what form would be most advantageous for the U.S. investor; Costa Rican law can generally accommodate whatever is required in that regard.

Commercial activity in general is governed by modern legislation of a kind familiar to United States lawyers. The commercial code of Costa Rica, enacted in 1964, contains few principles not repeated in the Uniform Commercial Code in force in the United States. Trademark and trade name protection, under the Costa Rican system, is similar to that provided by the U.S. Lanham Act, and protection is available to United States patents, which may be registered in Costa Rica.



Costa Rica Welcomes U.S. Private Enterprise

Costa Rica has taken stringent measures to overcome the economic crisis and achieve stability, which provides a basis for economic reactivation. To a large degree the measures have resulted from a joint effort between the public sector and private enterprise.

This interrelation is one of the many strengths of the Costa Rican democracy. Costa Rica is a country where private enterprise, including foreign investment, is heard and respected.

You are welcome to join us.

Federico A. Golcher
President
Costa Rican-American
Chamber of Commerce

The law of real estate and land tenure in Costa Rica is also characterized by strong parallels in basic principles despite marked differences in the procedural systems employed.

"Interfacing between United States and Costa Rican law can provide many very interesting advantages to United States investors," says Steven Wroe, a lawyer who maintains his permanent residence in Costa Rica and manages foreign-law matters for the Consorcio Economico Legal.

"U.S. CBI legislation and responsive new Costa Rican laws provide tax exemptions for companies or individuals that export to U.S. markets, regardless of ownership. They also provide local income tax and other tax benefits as well as some exemptions from U.S. customs duties. It is also possible to shelter the return to the United States investor in such an enterprise from income taxes, while any risk in the investment can be greatly reduced through U.S. sponsored investment insurance programs. Such advantages are contributing to the recent rapid increase in U.S. investments in agricultural enterprises directed toward consumer markets," adds Wroe.

Taxation. Tax planning is available and recommended. Excellent firms are available for this and other financial and accounting counseling. Such counseling can maximize net profits resulting from recent U.S. and Costa Rican legislative changes.

In addition to incentives and guarantees available to U.S. investors under U.S. law, Costa Rica offers local incentives and guarantees, particularly to those investing in export-related concerns. Among them:

- The Central Bank of Costa Rica will register foreign investment capital to provide for eventual protected repatriation from a specific foreign-exchange fund, provided the revenues generated by the investment improve the country's balance of payments.
- Foreign investors may repatriate earnings as dividends. The normal 15 percent withholding tax on such repatriated earnings does not apply if payment is made in shares of the distributing entity or if foreign tax credits are

COSTA RICA

not allowed by foreign tax authorities. Other foreign remittances, such as those for foreign salaries or services, are subject to varying percentages of withholding tax.

- Investors may qualify for exemption from local corporate taxes. An 8-year tax holiday is available if industrial contract status is obtained and a 12-year holiday can be given to firms entering nontraditional export areas.
- Various other import duty exemptions and reductions, tax deductions, negotiable tax certificates for up to 15 percent of exports, accelerated depreciation schedules, reduced port charges and similar benefits are available to new investors, especially to those which are export-oriented.

Many of these incentives and guarantees were strengthened or enlarged by the country's Emergency Economic Law, which was enacted in February, 1984. This new law makes possible most elements of the Ministry of Exports' Promotion program, which is considered a major element in revitalizing the Costa Rican economy.

Unlike U.S. tax practices, Costa Rican residents and corporations are subject to taxes only on income obtained in Costa Rica. On taxable income, deductions are similar to those in the U.S. system. Capital gains (and losses), except those involving transactions with depreciable assets, are normally excluded from taxable income at present, although a change in this area is anticipated.

Income taxes on nonsheltered income apply to both corporations and individuals on a graduated scale up to a maximum bracket of 50 percent. Aside from minor municipal taxes and permit fees, there are no state or city taxes.

Employers are expected to withhold employes' anticipated income taxes and both employers and employes face payroll taxes and charges which are payable monthly through the country's Social Security Administration.

Banking. Since the Costa Rican banking system was nationalized in 1948, private banks have been formed, most specializing in different fields of economic activity. These specialized banks, even though they are restrained from accepting demand deposits, show signs of vigorous growth due to the efficiency of the total banking system. The four state-owned banks and the 11 private banks are all subject to the regulations of the Central Bank of Costa Rica and to the fiscal scrutiny of the General Superintendent of Banks. Strict banking secrecy is assured, even with the full-service state-owned institutions. In addition to banks, more

than 20 finance companies, many affiliated with international banks, operate in Costa Rica.

The Central Bank has regulated all foreign exchange transactions since 1982, primarily by requiring that all export proceeds be sold to the Central Bank. In practice, this has served to reduce currency speculation and impose stability on the exchange rate. The Central Bank has occasionally adjusted the exchange rate, to reflect actual levels of foreign currency demand and local and international inflation rate differentials, so as not to hinder export competitiveness. In practice, most foreign exchange transactions are handled by the commercial banks, under well defined regulations which allow purchase of dollars for purposes such as imports in general, payment of duly registered debts, repatriation of dividends and payment of royalties.

An annual credit program, designed by the Central Bank, allocates available financial resources to the basic sectors of the economy. This program effectively regulates monetary growth, establishes different interest rates for different activities and dictates composition of bank portfolios by economic sectors. Since 1982 the Central Bank has aimed for slower monetary growth to stabilize the economy, resulting in tight local currency financing.

Draw Back. Given Costa Rica's good work force and geographical location it is no surprise that the country has many advantages to offer companies wishing to explore draw back operations under USTS 806.30/807. Such operations have been constructed both by direct investment and management (Bourns, Inc., Lovable, Bali, Motorola, to name a few) or by contracting with local operations.

Local government cooperates with draw back companies. A specialized office at the international airport facilitates imports of raw or partly assembled goods and exports of assembled or finished articles. A private sector association, Costa Rican Association of Textile Product Exporters, works actively with government to improve industry conditions.

A recent study by Production Sharing International, a U.S. consulting firm, ranked Costa Rica second to Haiti in labor costs and pretax benefits and second to Juarez, Mexico, as "generating the highest adjusted net income for a hypothetical apparel company."

These factors, together with the already mentioned environmental, political and social considerations, make Costa Rica a "desirable low cost source for apparel companies, electronic assembly

SPECIAL ADVERTISING SECTION

COSTA RICA

and other light assemblies," the study stated. Taking note of the country's educated middle class and highly literate population, the report said, "Costa Rica becomes an ideal location for high technology assemblies."

Agriculture. Costa Rica has been blessed with unusually fertile soils and a wide range of climatic conditions, including variations in both temperature and rainfall, so that a large variety of agricultural products can be grown. Under CBI the nation is in a preferred position to take advantage of the export possibilities in agricultural products and to encourage investment by U.S. firms in the agro-industrial field.

Although Costa Rica has traditionally depended upon coffee, bananas, sugar and fresh meat as the principal agricultural exports, in recent years a steady development of nontraditional items has emerged, signaling attractive prospects for future growth and investment. Costa Rica can grow tropical fruits such as papaya, pineapple and mangos as well as temperate zone products such as strawberries, tomatoes, artichokes and all types of cut flowers.

Small processing firms for the manufacture of food products offer opportunities for new investment.

The tropical foliage plant industry is the fastest expanding business that has developed in Costa Rica in recent years. Several firms are now engaged in growing a wide variety of tropical plants and exporting the cuttings or plants to the U.S. and European markets.

Labor Force. In general, foreign companies operating in Costa Rica report high satisfaction with the quality and productivity of Costa Rican workers. As in the United States, there is extensive legislation and regulation relating to the employer-employe relationship.

Such laws and rules are designed to protect employes from unfair labor actions of generally more powerful employers, but in practice employer rights are as strongly protected as employe rights.

Unlike the U.S. minimum wage law, minimum wages in Costa Rica vary in accordance with differing occupations and geographical location of the work. Minimum wage levels are reviewed and adjusted annually.

While the total wage and benefit package is substantially less than U.S. costs, the employe compensation is structured differently than familiar U.S. patterns. Basic medical, disability, death, occupational hazard, retirement and obligatory savings accounts are mandated by law. So are a year-end bonus (usually a month's salary), two-week paid vacation per year and six obligatory holidays per year.

Labor unions, aside from those involving most government workers and banana plantation workers, are not common. Instead, over the past 30 years a company-employe relationship based on "Solidarismo" (solidarity) has evolved. Consisting of employe-run, legally independent entities, the Solidarismo movement has allowed employes a mechanism for dialogue and consultation on a nonconfrontation basis with management. While workers at companies where such organizations exist are not obligated to join, worker and corporate contributions and savings are channeled into local versions of credit unions, purchasing co-ops, transportation pools, recreation centers, housing associations, group insurance policies and similar beneficial programs. Many local companies have made stock available to Solidarismo organizations and usually involve employe leaders in basic decision making.

Business Assistance. Specific questions from potential investors or trading partners may be addressed to a number of government and private information sources. Among them are:

Ministerio de Exportaciones
Apartado Postal 10089-1000
San Jose, Costa Rica

Costa Rican-American Chamber of Commerce
Apartado Postal 4946-1000
San Jose, Costa Rica

The Commercial Attache
U.S. Embassy to Costa Rica
Apartado Postal 10053-1000
San Jose, Costa Rica

Acknowledgments

NATION'S BUSINESS extends its appreciation for the assistance of the following individuals in preparing the various elements of this special section:

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James Fendell, Periodicos Internacionales—Editorial
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Best Business Advertising

Kudos for a Tramp And a Motor Mouth

Top winners in a Nation's Business poll: a computer ad featuring a personality, a commercial stressing frenetic speed.

By Kathy Root

Two highly memorable characters are the winners of the first annual Best Business Advertising competition sponsored by Nation's Business.

IBM Corporation's Charlie Chaplin character, signifying the simplicity of the company's personal computer, drew the most votes in the print category.

Federal Express captured the top award in the broadcast category with the entertaining, superfast talker who symbolizes the speed of air-express service.

The new competition is designed to gauge the effectiveness of business-to-business advertising. The 26 ads on the ballot in the February issue—eight in broadcast, 18 in print—were nominated by creative directors from top U.S. advertising agencies. Four nominations were received from each creative director, but only one nomination could be for an advertisement created by that agency.

In presenting the Best Business Advertising competition, Nation's Business sought the opinions of its readers, who are well qualified to judge business-to-business advertising because they are a significant part of its target audience. The ballots asked for a single vote each in the print and broadcast categories.

Nationwide balloting in the poll totaled 4,263.

Gulf Oil and TRW, Inc., won second and third place, respectively, in the print category. In the broadcast category, a Chrysler Corporation commercial featuring Chrysler Chairman Lee Iacocca finished second, and an IBM commercial about small computers (not using Charlie Chaplin) came in third.

All four of the runners-up are pictured along with the winners on the following pages.

Nation's Business believes that the Best Business Advertising poll can give its readers a better understanding of what makes for superior advertising, helping them to analyze their own advertising strategies and to plan new approaches. For a glimpse at how the winners achieved their success, read the following accounts, based on reports from the ad agencies and their clients.

Print

How do you personalize your new computer product when everyone knows you as one of the largest business-computer manufacturers in the world?

When IBM took a giant step into the personal computer market three years ago, duck-waddling right behind was the Little Tramp.

This classic film character, created by Charlie Chaplin, was revived to promote the simplicity and ease with which the "common man" can use the IBM Personal Computer and its offspring, the PCjr.

The print advertisement, "How to test drive the IBM Personal Computer," in which the Little Tramp appears to be test-driving the computer terminal much as one would test-drive a car, captured top honors in the Best Business Advertising poll.

Executives at IBM's PC division in Boca Raton, Fla., and those who created the ad at Lord, Geller, Federico, Einstein in New York City agree that the Little Tramp gets the PC message across.

"It's a really fun ad that we put together," says P. David McGovern, advertising director at IBM's PC division.

"We wanted to make sure that people understood that we're trying to help solve the confusion and uncertainty about computers," he says. "We showed that our product is approachable and friendly."

With the copy for the ad written from the point of view of test-driving a car, McGovern says, "we were taking something people hadn't had too much experience with and relating it to something they'd likely had experience with. We took a situation that could be very intimidating and made it seem like going into a car dealer's."

The Little Tramp, with his baggy trousers, mustache, derby and awkward walk, is not intimidating at all. The classic film character, developed by Chaplin for the Keystone Company in 1914, has become a silent symbol of the common man, shouldering the problems of the world.

And the theory behind using him in the PC ads, says Robert Wells, vice president and management supervisor at Lord, Geller, is that "if he can do it, you can do it."

Wells explains: "We wanted to show that the product could be used by anyone. The Little Tramp is supposed to represent Everyman, to show that anyone can take a personal computer and use it."

McGovern concurs, noting that the IBM PC "was the first product we had developed on a large scale for individuals. We had to make it seem friendly, approachable and easy to use."

Although Lord, Geller naturally wanted to produce an advertising campaign for IBM that would stand out from competitors'—who doesn't?—Wells says it is "happenstance" that the Little Tramp has grown in stature

Thomas Mabley and Arlene Jaffe, members of the IBM creative team at Lord, Geller, discuss ad sketches.

FIRST PLACE
IBM Corporation
AGENCY:
Lord, Geller, Federico, Einstein

SECOND PLACE
Gulf Oil
AGENCY:
Ketchum Advertising

THIRD PLACE
T.R.W.
AGENCY:
Wyse Advertising

with each succeeding advertisement on television and in print.

"The Chaplin character was originally supposed to appear only in the television ads, but later we moved him into print," Wells says. "He has taken on a life of his own as a vehicle to sell the product. We make sure he is relevant to every situation he appears in."

An unintended result of the use of the Little Tramp is that IBM has a new trademark. Many voters in the Best Business Advertising poll commented that they regard the character as a positive symbol of the company.

Although IBM did not set out to create a new trademark, McGovern says, the company seems comfortable with viewers' and readers' continuing association of the Little Tramp with IBM products.

"Chiefly, we wanted something that people would remember," McGovern says. "Using the Chaplin character was one way to create ads with stopping power."

Despite advertising industry rumors to the contrary, a male—California actor Billy Scudder—has always portrayed the Little Tramp for IBM. He starred in the first television commercial introducing the PC in August, 1981.

"Then we made a decision six months later to use him in print ads," says McGovern, "which, in retrospect, looks like a very smart decision."

Many would agree, including the creative team at Lord, Geller responsible for creating the advertising campaign. Measurements of the ads' success show that viewers and readers identify with the Chaplin character and that the messages are remembered.

Building on that association, IBM and its agency currently have the Little Tramp promoting the PCjr. in print advertisements and television commercials. On TV, the tramp plays the part of a proud father, wheeling the PCjr. around in a baby carriage. The print ad shows the tramp and a boy (junior) plugging the unit into a wall outlet for immediate use.

As for future ads featuring the Little Tramp, McGovern says only that "good ad ideas can last quite a long time" and that IBM is "very happy with the campaign as it has been going."

Adds Wells: "We feel very fortunate that IBM was of a mind to buy the concept, especially since it is markedly different from the company's usual advertising and what is going on with competitors' advertising."

FIRST PLACE

Federal Express
AGENCY:
Ally & Gargano, Inc.

MAN: Hi Gene, how's the wife, how's the kids, how's the weather, how about those Yankees? I just got your proposal, I think the perfect way...to proceed would be for me to have my assistant to duplicate it, collate it, translate it, telegraph it, reciprocate it, reiterate it...and make sure every man, woman and child in the United States gets a copy. After that, I think we should run with it, move forward with it,...
ANNOUNCER: Federal Express now schedules delivery by 10:30 am.
MAN: ...get all our ducks in a row with it, make sure we're all in the same boat with it...
ANNOUNCER: It's incredible what you can do with that much time.
MAN: At the same time. Then I'll have my assistant translate it into German, Spanish, Hungarian, Swahili, patois, Japanese...

Ally & Gargano's Mike Tesch (left) and Dennis Visich helped make Federal Express' fast talker a winner.

SECOND PLACE

Chrysler Corporation
AGENCY: Kenyon & Eckhardt, Inc.

There's only one way America is going to regain leadership in technology. By regaining the courage to invest in brains, plants, products that represent the future. At Chrysler we've been doing just that. Front-wheel-drive is not a novelty at Chrysler. We use it on family cars, luxury cars, sports cars, convertibles...we owe a lot of you our thanks...you've helped us stand on our own two feet again...we're introducing America's first 4-passenger front-wheel-drive turbo sports cars. But technology isn't enough. You must have the courage to stand behind the products you build. Only Chrysler backs every car we build with a 5-year, 50,000-mile protection plan. To turn a company around, you don't just need a lot up here...you need a little something in here.

THIRD PLACE

IBM Corporation
AGENCY: Doyle Dane Bernbach, Inc.

1ST MAN: What's that Fred's getting?
2ND MAN: A computer.
1ST MAN: What's he know about computers?
2ND MAN: They taught him everything he needs to know.
1ST MAN: He can't even drive a car; he's gonna run a computer.
2ND MAN: There's a special phone number he can call if he has any questions.
1ST MAN: He'll keep them busy.
2ND MAN: And if there's a problem they'll come right here and fix it.
1ST MAN: Right here! Nobody ever comes here. Who was it that gave Fred such a good deal?
2ND MAN: IBM.
OTHER MAN: IBM.
OTHER MAN: IBM.
1ST MAN: You're sure we're talking about the same FRED?

Broadcast

Federal Express wanted a way to convey the idea of speed—and found it with John Moschitta's mouth.

Moschitta has appeared in two Federal Express television commercials, reeling off phone conversation patter at an incredible pace. With a top speed of 534 words per minute, Moschitta has helped create memorable advertising whose success is reflected by the voting in the Best Business Advertising poll.

The award-winning commercial, known internally as "Ambidextrous" by Federal Express and its advertising agency, Ally & Gargano of New York City, is a sequel to "Fast-Paced World," the original commercial starring Moschitta. In "Ambidextrous," Moschitta discusses a proposal with a business associate over the phone while a robot-like actor in the background uses machines and shuffles paper very rapidly.

An off-camera announcer presents the ad's message—a 10:30 a.m. guaranteed delivery time for air-express package service.

"The focus of that ad was Federal's introduction of its new delivery time, which was moved up from noon; the ad was geared solely to the introduction of that delivery commitment," says Dennis Visich, senior vice president/management supervisor at Ally & Gargano. "In the heated-up market of its competitors in the air-express business, Federal set a new standard for overnight delivery."

With Moschitta emphasizing speed through his fast talking, Ally & Gargano added an element—the paper shuffler and his machines in the background—to emphasize how much more work could be done in the hour and a half gained through 10:30 a.m. delivery.

"The second ad created an awareness of how much work he could get done in the extra time provided by a morning delivery, rather than an afternoon delivery," explains Visich. Advertising measurement tests showed the commercial was very successful in conveying the message of speed and reliability, Visich adds, "making the marketing of 10:30 delivery significantly successful."

Tom Oliver, senior vice president of marketing for Federal Express at its headquarters in Memphis, agrees that Ally & Gargano's efforts were just what the company was seeking.

"The relationship was one of real teamwork in making this happen," Oliver explains. "The concepts—fast, reliable service, new delivery time—emanated from us, but it was the agency's job to present them in a way that people will remember. We spent a lot of time talking back and forth about it."

Oliver says that the advertising agency's coming up with Moschitta was something of a fluke. Moschitta was spotted doing his fast-talking routine on a television show.

"We were looking for a way to convey reliability and the idea of getting faster and faster and faster," says Oliver, whose company occupies the No. 1 position in the air-express business. "When the agency spied him on a TV program, it realized he could convey that message with his talking."

The rest is history. The original fast-talking Moschitta ad for Federal Express ("I know it's perfect Peter that's why I picked Pittburgh Pittsburgh's perfect Peter may I call you Pete") put the company in front of millions of TV viewers and won Moschitta the 1982 Clio for best male performer.

Then came "Ambidextrous," despite Ally & Gargano's reluctance to make a sequel to "Fast-Paced World."

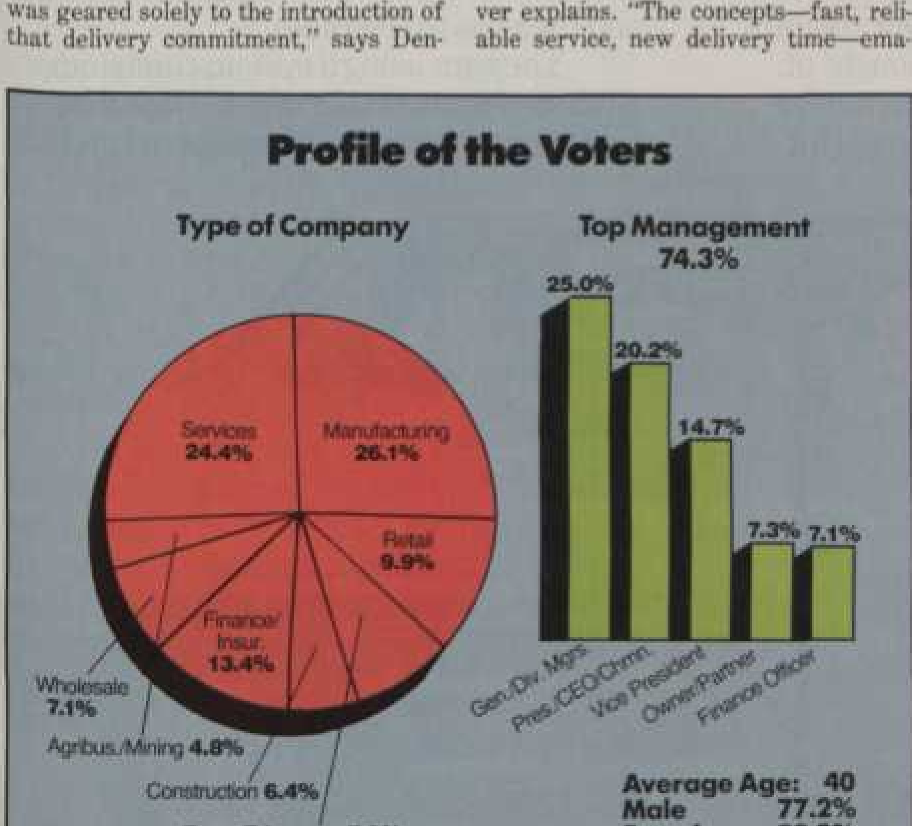
"We pushed them to consider using Moschitta again for the 10:30 a.m. delivery," Oliver remembers. "Ally & Gargano resisted, but then they came up with the idea of 'Mr. Arms' and all the machines, and it's very effective."

Audience measurements have shown that Federal Express' "top-of-mind awareness" has reached nearly 40 percent since the advent of "Ambidextrous" on TV. That means nearly 4 out of 10 people who are asked about air-express services will think of Federal Express first.

Although the agency and Federal Express are not sure whether Moschitta will be used another time, there's no question the second ad is memorable—a very important qualitative factor in advertising.

Many of the comments received on ballots in the Best Business Advertising poll note that viewers think the commercial is entertaining, humorous and unique in presenting its message.

Oliver says his company is very pleased with Ally & Gargano's products: "We figure just about every bright brain in every ad agency in America with an express account is trying to figure out how to beat Ally & Gargano in the express advertising business." □



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AT&T CAN H
BUSINESS I
NEVER TH

This year, thousands of new businesses will open their doors.

We can help every one of them in ways you never thought of. We can help make the whole country their territory.

We can help get orders in and out the same day so they can move stock faster.

We can help them bill the same day so they can have a better cash flow.

We can even help keep their customers happy in ways you never thought of.

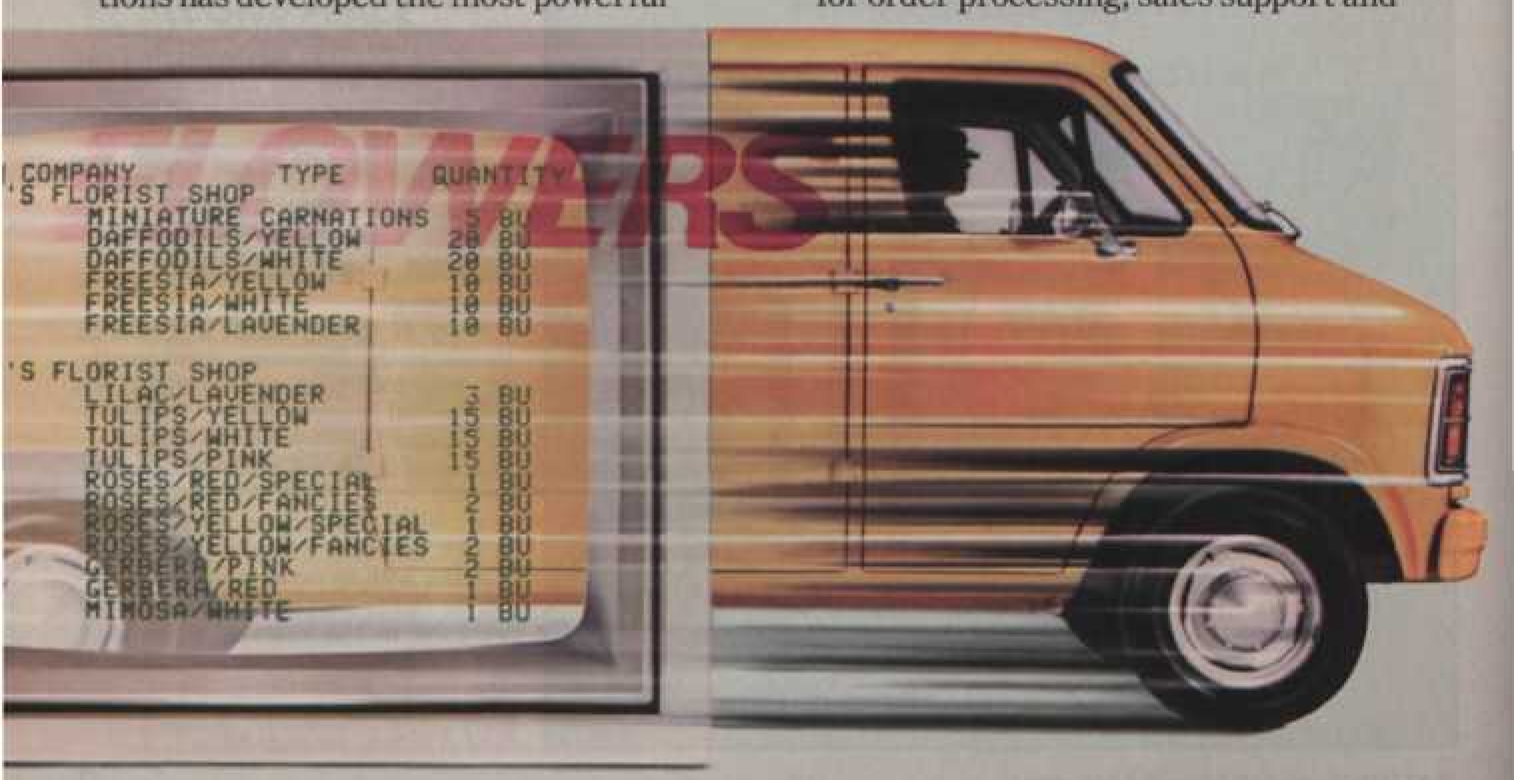
Over the years, AT&T Communications has developed the most powerful network in the world to help business communicate better.

And in doing so, we've developed the most sophisticated techniques to help business use our network better.

The Delaware Valley Wholesale Florist is a case in point.

The company buys flowers daily from all over the United States and the world without having any firm orders for them, and then has to sell them.

They are using a system combining AT&T WATS and DATAPHONE® Digital Service for order processing, sales support and



It is 4 a.m. in Stillwater, Minn. Moonlight reflects off a snow cover. A light goes on in a suburban house. Kathy Tunheim has slipped quietly into her home office and has begun her working day. Her husband, a St. Paul lawyer, and her newborn daughter are still asleep.

The daughter's arrival was the reason Kathy Tunheim abandoned—at least temporarily—her familiar office 25 miles away at the Minneapolis headquarters of Honeywell Inc., the electronics and office equipment firm. But she is still working for Honeywell.

Tunheim turns on her computer and begins her day's work. Later, she will use her computer's access to telephone lines to send her work in for review by her boss at the headquarters office complex. "I can usually get in five solid hours before the baby wakes up in the morning," Tunheim says.

She will also send messages to the people who work for her in Boston, Minneapolis and Phoenix. Kathy Tunheim is neither a secretary nor a computer expert but rather a manager who spends most of her workweek at home. In effect, she commutes to Honeywell by computer.

Honeywell is one of a number of companies and other organizations that have begun to allow employes to spend at least some of their working hours at home.

Because computer manufacturers like Honeywell know the most about how their products can change work situations, such companies have employes working in their homes across the country.

Tunheim, one of two public relations managers at Honeywell, decided to try working at home because she felt loyal to Honeywell and because she wanted to spend as much time with her baby as possible.

"It really does work very well," she says. "I've been amazed at the support I've gotten from management at Honeywell. The one thing I didn't plan on is that I'm on a couple of boards of nonprofit groups, and I'm very active in our church. I didn't get maternity leave from those."

Tunheim's boss, Karen Bachman, Honeywell's director of public relations, is also pleased with the results of what she calls "quite an experiment for us."

Bachman says supervision has not been a problem, in part because preparing press releases places such a heavy emphasis on an individual's writing skills that "we're all pretty independent in this department."

After a couple of months of working

PHOTO: NANCY BUNDT

If You Worked Here, You'd Be Home Now

By Mike Lewis

at home, Tunheim has begun going into her office one day a week. "I plan to start working my way back into the office" soon, she says. She wants to be around to encourage her subordinates to get out of the office and see members of the media reporting on Honeywell.

But, at Bachman's urging, Tunheim will keep the company computer in her home office. Honeywell, like a number of other companies, has learned that allowing flexible working conditions reduces staff turnover. "I hope that eventually we will all have terminals at home," Bachman says.

Just how widespread is this phenomenon? Says Jack Nilles of the University of Southern California Center for Future Research: "My best guess is that

Kathy Tunheim (left) is one of a growing number of Americans who—thanks to the computer—work at home, sparing them . . .

there are now 30,000 in the United States" who work at home with company computers at least part time.

He estimates that another 20,000 Americans work closer to home thanks to the computer, which has encouraged some companies to decentralize operations, with several suburban branches sometimes replacing a downtown headquarters.

"Probably the majority" of these 50,000 people are in the computer industry or a related field, Nilles says, though the secretaries and other clerical workers computing at home come from all areas of business.

When Nilles talks about working at home with a computer, people tend to listen.

In 1973, when most business people gave such work little or no thought, Nilles wrote a book predicting that an electronic cottage industry would begin to develop in the early 1980s with the advent of the microcomputer. As he notes now, "That's exactly what seems to be happening."

The reasons for the change, Nilles says, center on productivity: "People can work with fewer interruptions. In most of these situations, the worker can pick his or her own time to work," with resulting productivity gains of 20 to 300 percent.

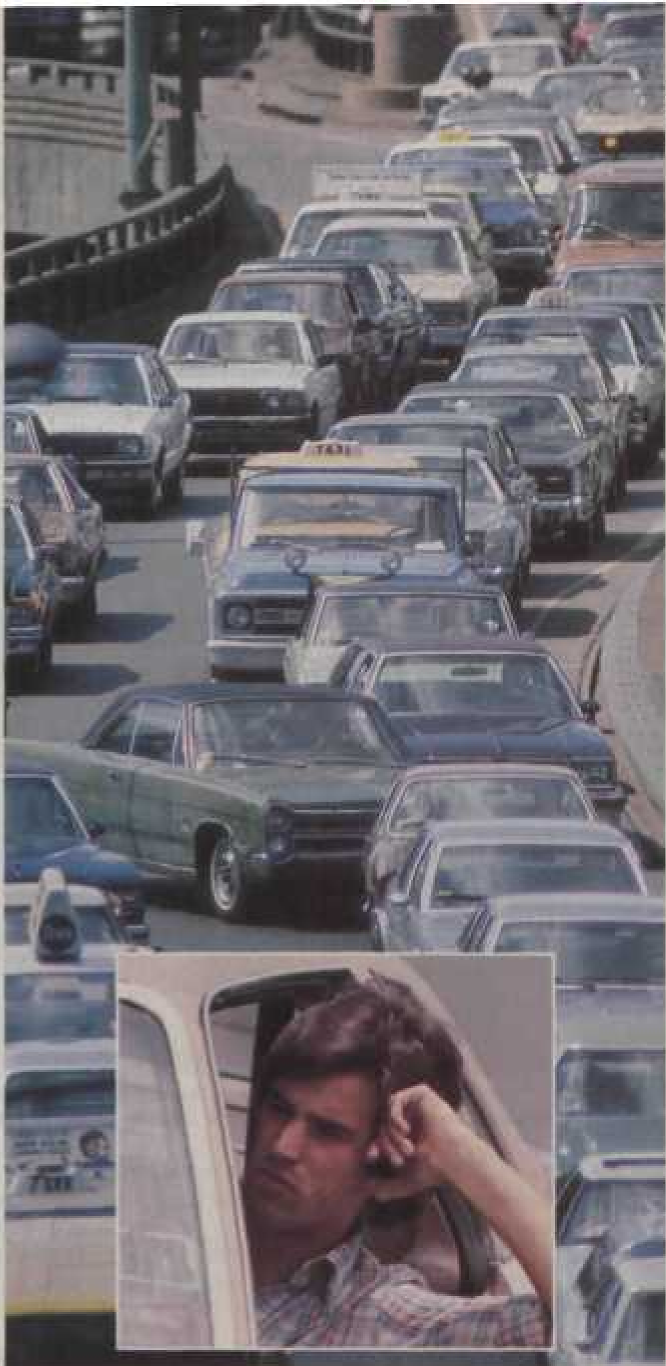


PHOTO: BRYCE FLYNN—PICTURE GROUP INSET PHOTO: TONY KORODY—SYGMA

. . . the grief and time loss of commuting. Such workers, with more flexibility to meet family needs, can be more productive.

Employes produce more because they have the time and flexibility to fit in family obligations, he says, and this leads to improved morale. And, he adds, part of the time that they save by not commuting may be spent on the job.

There are some drawbacks, Nilles warns: "If you're a compulsive eater, you've got trouble." And to be productive at home, he observes, a worker must be a self-starter.

FOR MORE AND MORE employers, any drawbacks shrink when compared with the advantages. Few bosses could be more enthusiastic about high tech homework than Don Koch, senior vice president and director of research at the Federal Reserve Bank of Atlanta. Koch's research staff of 56 full-time and 78 part-time workers has had the option of working at home for three years. During that period, he says, productivity has improved tremendously.

Koch says the productivity of his staff members, who write analyses, has increased largely because they can avoid the time-consuming and often nerve-wracking trips to and from the office. Koch practices what he preaches—he works a day or more at home each week.

Charline Seyfer, a staff manager in the training and education department at Mountain Bell in Denver, says she frequently works at home on her computer.

For Seyfer, the homework option means she can plan on leaving the office at a reasonable time. "My office hours are pretty normal most of the time," she says, because she can do any unfinished work at home.

A majority of the 360 employes in the department have the option to work at home, she says, depending on whether their jobs lend themselves to it. Such work has become so common that home is now known as a "secondary work location."

Computerized homework, because it requires little mobility, offers special opportunities to people whose physical handicaps make it difficult for them to work in a typical office.

About 50 handicapped people work full time for Control Data Corporation in their homes across the country, through terminals connected by phone lines to the mainframe computers in the Minneapolis headquarters.

Joanne Saladin had worked in Control Data's Dayton office for about a year and a half when she suffered a brain aneurysm and stroke in 1974. "I couldn't work or move my right side, and my speech was affected," she recalls.

After hospitalization and therapy, she received disability benefits but, she says, "then this program came along and it changed my life all around because I was just sitting around like a vegetable."

The pilot program that changed her life began in November, 1978, when Control Data began training disabled former workers to see if they could work productively at home on computer terminals.

"They trained me and I passed," Saladin remembers, and in December, 1979, she started back to work. She programs software packages in academic subjects, ranging from material for the General Educational Development test (the standard test for high school equivalency) to a college calculus course that took six months to program.

"It has been a blessing and I love it," she says of the training program. If she had not had her stroke, she says, she would not enjoy working at home and seeing her colleagues in Minneapolis only once or twice a year. But, she adds, "I can't stand the pressure of the work" in an office setting. Now, she says, "I go to work in my robe and pajamas sometimes."

Joe Erney was a Control Data customer engineer working under contract with the National Aeronautics and Space Administration when he was

stricken with rheumatoid arthritis in 1975. His arthritis forced him to quit work in 1976. After going through the company's training in 1978 and 1979, Erney began work in his home in Hampton, Va.

He explains that Control Data has centers around the country that provide computerized training in job skills. The centers report problems with the computerized training programs, and Erney reviews the reports and consults with the course instructors on correcting the problems.

"I can function well right here at home," he says. Erney thinks more and more workers will begin working at home in the next few years.

"The only thing I really miss," he says, is the interaction with his colleagues, and he thinks he will miss that less over time.

(Some computer workers who stay home say they feel they are in closer touch with their colleagues because of the ease with which they can send and receive electronic mail.)

To Erney, 53, working at home has been a reprieve. He thought after he got sick that his career was over. But now, he says, "I'm hoping to work until I can retire at 65. I don't feel like a burden to the company. I feel like an asset."

No one opposes letting the handicapped do "industrial homework"—as it is called by federal agencies—on computers. But there are some obstacles to the growth of homework by other employes. The AFL-CIO has in fact asked the Labor Department to ban computer homework except for handicapped workers.

In the early 1940s, as part of an effort to eliminate sweatshop conditions, the Labor Department prohibited the home manufacture of certain items of women's apparel. Those bans are still in effect, but business groups have begun to lobby against them and to oppose any additional bans on industrial homework, notably on the use of personal computers.

A bill introduced by Sen. Orrin Hatch (R-Utah) would remove the current bans and therefore tend to head off any new bans. The U.S. Chamber of Commerce has supported Hatch's legislation, arguing that work at home tends to increase productivity and offer more people the opportunity to work. Working at home also reduces employers' overhead by freeing companies from providing primary work space and such facilities as lunch rooms and parking lots.

PHOTO: DAWSON JONES

A "wonderful" training program provided to handicapped employes by her company has enabled stroke victim Joanne Saladin to work from home for more than four years.

Mark A. de Bernardo, a Chamber labor law attorney, recently told a Senate subcommittee that "by prohibiting homeworkers from the marketplace, the government assists organized labor in restricting the supply of labor, eliminates its more labor-efficient . . . competition and drives up the wage scale of union workers in an effort to achieve a labor monopoly."

It is considered unlikely in Washington that government restrictions on working at home will be extended to computer-based activities. Prospects are that growth of computer homework will thus be unhampered by artificial restraints.

And how large will that future growth be?

USC's Jack Nilles predicts that by the turn of the century 5 to 6 percent of nonmanufacturing American employes will be working at home full time. A lot of other people will work at home part time. Within 15 years, he says, millions of Americans will probably be commuting by computer. □

KOREA

These photos only hint at the economic miracle that is the Republic of Korea, a thriving industrial country that was a poor agricultural one two decades ago—per capita income has risen from $100 to $1,700. Top: the bustling downtown of Seoul, the capital. The industrial scenes are in the Pusan area. The plane is a fighter manufactured under license from Northrop.

An Asian Land of Opportunity For American Enterprise

THE INDUSTRIAL growth of the Republic of Korea, which began in 1962, has been one of the major success stories of international development in the past few decades. Korea is the United States' ninth largest trading partner.

A little more than 20 years ago, Korea, with precious little in the way of natural resources, had a marginally subsistent agricultural economy. As a nation it was close to the bottom of the international income scale.

Despite this, the industrious, enterprising Koreans launched a series of economic development programs that have transformed their country into one of Asia's major industrial centers. Today Korea's principal exports are textiles (37.4 percent), metal products (27.4 percent), basic metals (7.7 percent) and chemicals (7.6 percent).

Of increasing importance to Korea is the need to increase exports of manufactured goods. Korean manufacturers are seeking to upgrade the quality of such products, and they need more advanced production equipment to be able to compete more effectively with the Japanese.

U.S. firms, say trade analysts, should be able to compete in the Korean market for the following types of products: medical instruments and equipment, analytical and scientific equipment, large computers, electronic industry production and test equipment, food processing and packaging equipment, special machine tools, industrial controls, telecommunications equipment and construction equipment.

Korea appears determined to avoid economic conflict with the United States of the type that has marred U.S.-Japanese trade relations. Korea's government leaders are listening to American business complaints about lack of market access, patent protection, greater market entry and expanded business opportunities for U.S. banks.

Destined to become an even larger U.S. trading partner in the years ahead, Korea genuinely seeks to solve the problems that today impede trade between the two countries.

In an exclusive interview with NATION'S BUSINESS, Dr. Duck-Woo Nam, chairman of the Korean Traders Association, discusses the future. Dr. Nam is a former prime minister of the Republic of Korea.

Dr. Nam, will you please put U.S.-Korea trade in perspective?

Duck-Woo Nam: Korea wants to make foreign investors welcome.

I think the salient features of trade between our two countries are first, its rapid growth, and second, that by and large it is well balanced. Today the traffic is more than $10 billion. The economies of our two countries are rather complementary, not competitive.

We are importing from the United States the agricultural products, raw materials, capital equipment and technology that are deficient in Korea. In turn we export to the U.S. labor-intensive light-industry goods, shoes, inexpensive electronic products and steel products. And semiconductors are looming large these days as an export product.

Our trade is growing at an 8 to 10 percent rate.

A major concern in the United States, specifically of labor unions, is the impact of imports on unemployment. How do you respond to charges that Korean imports take American jobs?

Well, this is a familiar subject, but you have to judge this in the overall perspective. For example, imports by the United States in 1982 totaled $254 billion. Korean imports accounted for only 2.4 percent. That was a new high. Before 1982 the share had been lingering around 1.7 and 2 percent. So our share is a tiny fraction.

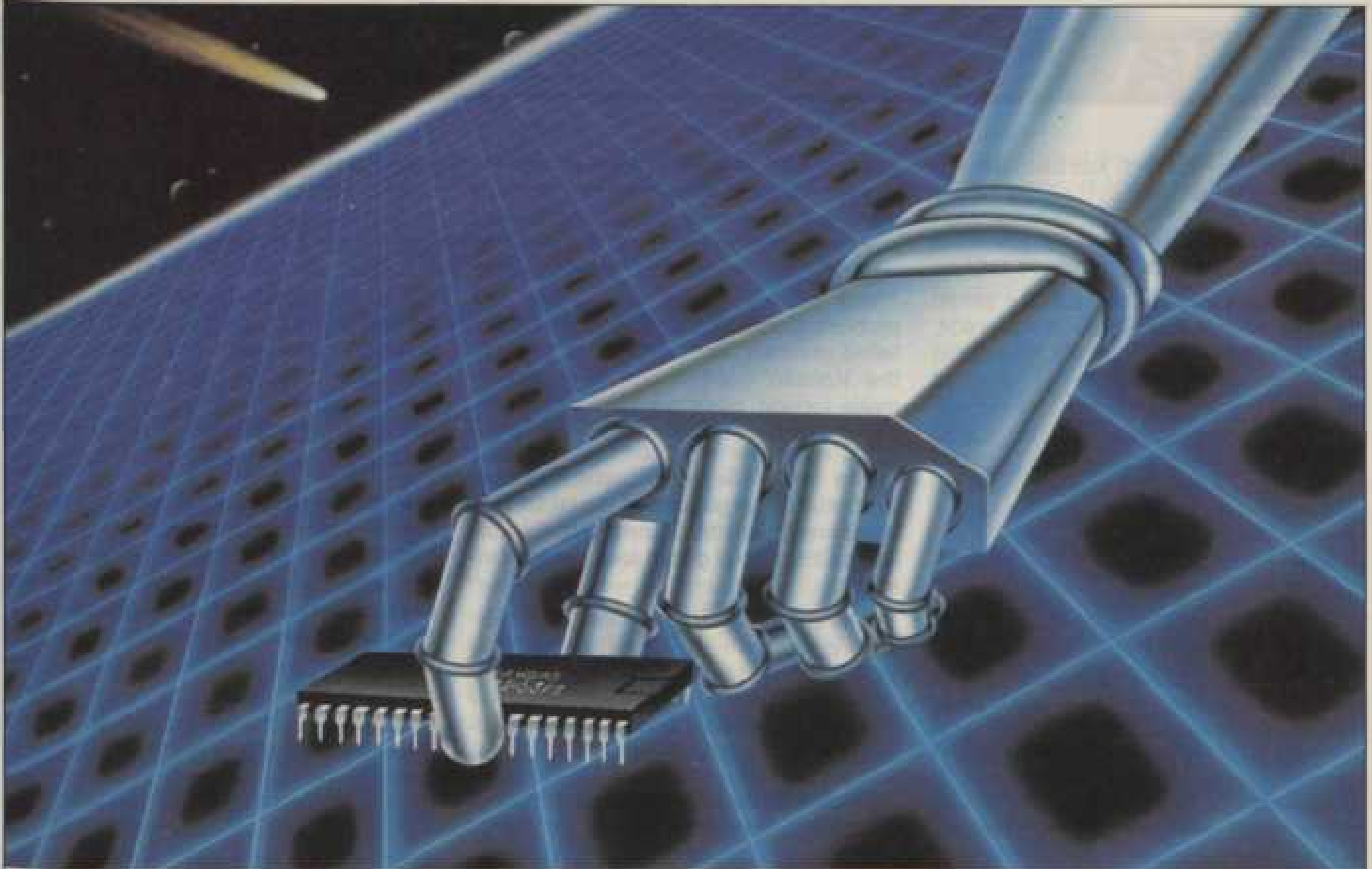
Of course, our exports have been skewed by a few products, such as textiles and shoes, but even then our share is not so great. In 1982 the United States imported $11 billion worth of textiles. Our share was $1.6 billion, which is equivalent to about 15 percent. Of course, we understand that the combined impact of imports from Korea, Taiwan and elsewhere on U.S. domestic industries will be substantial.

Perhaps in the case of shoes our share is a little higher, but in terms of total consumption our share is negligible. So my argument is that the alleged serious unemployment impact in the United States due to imports from Korea is awfully exaggerated.

Let's turn to agricultural imports. Korea is a good customer of the United States, but there are problems.

Every year we spend about $1 billion for grain. We import grain only from the United States. The United States and other countries are pressing to open up agricultural imports, because Korea has no comparative advantage in agriculture. Our rice price is twice as high as the international price for rice.

Agriculture is more than an economic aspect. It really is a way of life of the Korean people. So there is strong resis-



Stereo Color TV

VTR

R & D Center

Microwave Oven

Color Monitor

Welcome to Samsung's "3A Family"

Home Automation
Office Automation
Factory Automation

Samsung has joined the heavyweights of the electronics industry in bringing you high-tech automated systems for home, office and factory. Being one of the most famous electronics firms in the world that maintains a large scale Research Institute, we are dedicated to producing only the best products available to meet your particular needs. Backed by 5 sister firms, each specializing in their own high-tech electronics field, Samsung has the strength to prevail in today's modern world.

SAMSUNG

Electronics

- **HEAD OFFICE:**

OVERSEAS BRANCHES:

- **Samsung Electronics America Inc. (New York):**
- **Chicago:**
- **Los Angeles:**
- **Dallas:**
- **Miami:**
- **Toronto:**
- **Panama:**
- **Santiago:**
- **London:**
- **Samsung Electronics GmbH:**
- **Samsung Electronics Portuguese S.A.R.L.:**
- **Jeddah:**
- **Dubai:**
- **Singapore:**
- **Hong Kong:**
- **Jakarta:**
- **Tokyo:**
- **Sydney:**

tance from the farmers, just as there is in Japan and Israel.

You do have heavy agricultural subsidies, don't you?

We have some subsidies in the sense that we provide some agricultural credit, and we provide fertilizer at a lower cost than economically warranted. And of course we subsidize consumers for rice consumption because we buy up rice at a certain price and sell it to the consumer at a lower price. The fiscal deficit from this has been a major issue for years.

How significant is it to the Korean budget?

Sometimes it is about 10 percent of our total budget, which is very serious. That is why in 1983 the government froze the purchasing price and raised the price to the consumer. So the government is trying to reduce this deficit.

Foreign businesses complain about barriers to investment. Are those complaints justified?

There are barriers of the unusual type you find with cultural differences. For example, you must remember that in Korea there is a deference and respect toward authority. Korean culture is deeply rooted in Confucian tradition and principle. There is the language barrier. That is a problem sometimes in working out a detailed contract. But just let me say that the Korean government is eager to make foreign investors here more welcome and investment easier.

The total U.S. investment in Korea isn't all that large, about equal to U.S. investment in the Dominican Republic. Isn't Korea a good area for investment?

You are correct about the size. Foreign investment in Korea amounts to $1.4 billion and out of that total about 28 percent is from the United States. The Korean government is very eager to attract foreign capital and U.S. investors.

What are the attractions that Korea offers U.S. investors?

First, the Korean market is growing. We offer an ever-growing domestic market. Second, American investors can use Korea as a launching base to export to Third World countries.

Our geographical location is important now that mainland China is emerging on the international scene as a trading country. Korea and mainland China are only 150 miles apart. And, obviously, we are close to Japan. Now American firms can produce something here and export to Japan. Also, there is the growing Southeast Asia market.

One final question. Korea has made significant moves to expand its heavy industry but still relies on light industry, labor-intensive industry, for export dollars. What is happening to Korean wage rates and what do you foresee?

For the last few years, wages have been rising rather fast because of the inflationary spiral and the exodus of construction people to work in the Middle East. But in the long term, Korean wage increases will be milder than in other countries because of the size of our available labor force. □

FORECASTS AND PHILOSOPHY

Business Viewpoints From a Growing Nation

Samsung's Tristar Challenges Competition

The Samsung Electronics Company symbol—a tristar—represents quality, technology and good service and, in essence, the Korean entrepreneurial spirit.

The parent Samsung Group, established in 1938 initially as a small retail store, is one of Korea's largest business organizations. It is involved in electronics, trading, textiles, paper, glass, telecommunications, heavy and chemical industries, construction and development and service industries.

Samsung Electronics' Jae-Un Chung.

Its Samsung Electronics Company, founded in 1969, today is one of the 50 largest electronics manufacturers in the world.

"Our company operates on a 'From Sand to Color TV' integrated production system," says Jae-Un Chung, president of the company.

Samsung's integrated production system, he says, "allows us to keep production costs down while maintaining tight quality control throughout the manufacturing process and still leave plenty of room for technological innovations and service improvements."

Vertical integration is very important to Samsung, he notes, "because we do not have the component manufacturers to draw upon" in Korea. Samsung Electronics is currently the world's leading manufacturer of black and white television sets and the nation's pioneer manufacturer of semiconductors.

"In the future," says President Chung, "we will center our efforts on development and application of high technology to all our home and industrial products. Special emphasis will be put on upgrading and increasing semiconductor production for computers and data processing and storage systems."

To better compete in the future, the Samsung Electronics Company is departing from being a traditional consumer-centered maker into becoming an industrial automation-centered, all-around manufacturer, Chung says.

Korean Economy Geared to Survive

Korea, the fourth largest debtor nation in the world, is in no economic danger, says Sung-Sang Park, chairman and president of the Export-Import Bank of Korea.

"Foreign debt amounts to about $38 billion," he says. "We can survive without additional borrowing in 1984 and 1985 if necessary, but yes, we will borrow."

The bank is a special government financial institution established on July 1, 1976, to facilitate and develop export-import transactions.

Speaking of the near future, the chairman points out that Korea has $2 billion in promissory notes and $6 billion in foreign exchange that can be used for importing.

"Our economy is sound and strong," he says with confidence.

Export-Import Banker Sung-Sang Park.

The Exchange Bank's In-Yong Chung.

Korea's Debt Called Quite Manageable

In-Yong Chung, chairman of the Korea Exchange Bank, is quite bullish on the nation's economic prospects.

"Our national debt-equity ratio is not very high," he says. "On the whole I would say that it is a very healthy and manageable situation."

His bank ranks 141st in the world in total assets and reserves. Over the past decade the bank has established a vast international network of branches and correspondent banks.

Chung is well aware of criticisms about access to the Korean market by foreign banks. He says:

"There are restrictions on U.S. banks operating in Korea, but foreign banks actually enjoy more benefits than Korean banks. For example, they have tax exemptions and an arrangement with the central bank to guarantee against any losses from currency fluctuations."

Ssangyong Committed As Driving Force

"As Korea prepares for its second economic takeoff, each affiliate of Ssangyong Business Group has renewed its commitment to be a driving force in the movement that will propel Korea into the ranks of the advanced nations," says Chairman Suk-Won Kim.

Established in 1948 as a textile com-

Ssangyong Group's Suk-Won Kim.

pany, the group has grown steadily to become one of Korea's major conglomerates, with more than $2.9 billion in annual turnover.

"Our daring expansion in the face of the worldwide slump once again exemplifies the group's determination to be a pioneer and innovator, and the results speak for themselves," says Kim.

Kim typifies the independence and self-reliance that is a cornerstone of his nation's business philosophy.

"A vivid example of how the group's visionary strategic planning has resulted in handsome dividends, not only for the group but the nation as well, is the success of Ssangyong Oil Refining Company, Ltd., the first oil refining venture fully owned and operated by domestic capital," he points out.

Other major affiliates of Ssangyong Group are Ssangyong Cement, Ssangyong Heavy Industries, Ssangyong Construction, Ssangyong Software & Data, Ssangyong Shipping, Ssangyong Paper, Koryo Fire and Marine Insurance and the newest member, Ssangyong Investment and Securities. □

Acknowledgments

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The Korea National Tourism Corporation supplied photos.

David Weatherup's customers range from big companies to the Syracuse zoo.

A Setback Didn't Fence Him In

When recession clobbered his business, this executive refused to go under. Now Central Fence is a $2 million-a-year firm.

DAVID B. WEATHERUP went heavily into debt when recession hit his 12-year-old business in 1969. The Syracuse, N.Y., firm, Central Builders Supply, had been successful. But with the downturn, many builders who owed it money went bankrupt.

Weatherup could have filed for bankruptcy, too. But that is not his way.

Instead, he looked around for a "viable market" that he could pursue, settled on security fencing and started Central Fence of cny, Inc. He paid his debt off in three years and gradually built his new company into a $2 million-a-year enterprise with 50 regular and seasonal employes. It is in the top 5 percent of a field in which small firms predominate—few have annual sales of more than $250,000.

Central Fence is now "more than just a fence company," as one of its slogans says. It is into electronically controlled gates, alarms, television monitors and all the other components of total security. Customers range from Syracuse's new zoo and the Onondaga County penitentiary to such companies as General Electric, Bristol-Myers and Carrier Corporation.

And David Weatherup is more than just the president of his own company. He is an activist who has helped forge political strength for small business locally and nationally, an entrepreneur whose thinking embraces a global outlook, and a chief executive who is as likely as anyone else to answer the company telephone when it rings.

"I believe in picking up the phone," he says, describing how annoyed he becomes when he tries to make a call himself and is grilled about his identity before being permitted to speak to the person he is calling.

So no calls are screened at Central Fence. If David Weatherup is there, he will talk to anyone who phones him. No one gets the third degree.

Weatherup was born 60 years ago in Central Square, a rural village north of Syracuse, and he lived there until he joined the Marines in World War II.

When he was 10, his father, a farmer who supplemented a Depression-era income as a district manager for Maytag, died in an accident. His mother took over the support of young David and his brother and sister. Trained as a social worker before her marriage, she got a job with the welfare department of Onondaga County, which includes Syracuse. Evenings and weekends, she followed in her husband's footsteps, selling washing machines.

Weatherup remembers how the family would take the back seat out of the car to make room for machines that had to be delivered. And, he recalls, his mother "would do such innovative things as trade a washing machine for a pony for us."

When Weatherup returned from the war, with the rank of staff sergeant and a Distinguished Flying Cross, he headed for Cornell University.

Since many of his relatives had been veterinarians and one of his uncles was dean of Cornell's veterinary school, Weatherup says, "it was programed for me to be a veterinarian." Taking all the preveterinary courses, he earned a degree in agriculture. But then he "just decided that being a veterinarian was not for me."

College was followed by a succession of jobs with lumber companies. Once, he visited a female co-worker in the hospital. Christine Pappas, a student from Greece who was attending Syracuse University, had the bed next to

Weatherup's friend. Soon after, Weatherup returned to the hospital on the pretext of visiting his friend. She had already been discharged. "I knew that," says Weatherup, "but I went back to see Christine."

Christine became his wife, and the couple's twin daughters, Joy and Melina—each named after a grandmother—are now students at Indiana University.

Weatherup's work in the lumber industry, including a stint as a sales manager, persuaded him that he was ready to go into business for himself. He was able to convince a major manufacturing company "that its fortune would be best served" by making a Weatherup-run firm the central New York outlet for the manufacturer's cedar building materials. With some capital of his own and credit from the manufacturer, Weatherup launched Central Builders Supply in 1957.

HOW DID HE COPE when the 1969 recession forced his hand? He gets reflective for a moment, mentioning that he reviewed clippings of some old newspaper stories about him in preparation for the interviewer. They reminded him, he says, of one of his sayings: "Success is spelled W-O-R-K, and the only place where success comes before work is in the dictionary." Hard times in business simply meant that "I went back to work and found a new direction."

Security fencing seemed the right choice. Stepped-up highway construction in the Syracuse area meant the need was there. Weatherup also discovered there was no local fence company—only the Cyclone division of United States Steel. "I guess I thought, 'If you're going to go into this, you might as well challenge the biggest one.' "

He also thought he could gain a market edge by taking on work no other company wanted. "We always look for the most difficult jobs—for example, special cages that may be 30 or 40 feet in the air and that somebody else will say cannot be built. We do not know any better, so we build them."

His employes, Weatherup contends, "just don't understand the words, 'You can't do it.' "

As time went by, Weatherup found that customers began saying not that they needed a fence but that they had a "security problem." And then some went further, saying, "We have an access control problem," meaning they wanted to control who came through the doors, into a plant or onto the grounds. To meet such needs, Central Fence evolved into a total security business. Weatherup says that in a few years, it will be called the Access Control Company.

In 1974 the *Syracuse Herald-American* named Weatherup "man of the year," citing him for his company's growth and his community involvement.

He had hired prison parolees and worked with disadvantaged youngsters. An active supporter of the Boy Scouts (he had been one as a youngster), he had been given the Silver Beaver Award, the Scouts' highest honor for someone outside their organization. He had participated in the Greater Syracuse Chamber of Commerce and a variety of trade groups. He had even served as mayor of Central Square, donating the $200 annual salary for a much-needed study to determine village growth.

A decade later, Weatherup could be anyone's man of the year for more recent accomplishments. His activity with the Syracuse chamber took a new turn as he became increasingly interested in the political clout that small business owners could exercise if they acted together.

Chamber President Erwin G. Schultz says that eight years ago the chamber formed a small business council, the first in the state, under Weatherup's leadership—"under his insistence, if you want to know!" Schultz amends with a laugh.

Then Weatherup, Schultz and others organized the New York State Association of Small Business Councils and helped other communities form similar organizations.

The original objective, Weatherup says, was to make legislators aware that certain legislation and regulations would have a different impact on small business than on big business. But he quickly adds: "We never wanted to have a small business versus big business issue. Most small businesses want to be big businesses."

WEATHERUP'S demonstrated leadership made him the obvious choice to become chairman of the chamber in 1980. The "greatest satisfaction" of his term was the 1982 launching of the Greater Syracuse Program, a four-year, accelerated economic development effort that in six months raised more than $3 million in pledges to meet expenses.

The program's goals: to increase area employment within four years by 20,000; to see $500 million in commercial construction in the same period; to establish Syracuse, through an advertising and public relations effort, as a major growth city; and to improve the chamber's capability to sell the area to industrial prospects.

A survey indicates that the advertising-public relations campaign is paying off. The chamber has a new headquarters, and its staff has been upgraded. And halfway through the program, the employment and construction goals are already more than half met: 15,000 jobs, $280 million in construction.

Weatherup also took on assignments with the U.S. Chamber of Commerce, becoming a member of its board of directors in 1980. This month he will complete his year as chairman of the U.S. Chamber's Council of Small Business.

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When Not To Take a Worker to Task

Like most company presidents, David B. Weatherup of Central Fence in Syracuse, N.Y., speaks of people as the most important factor in a business.

He backs up his words with actions. For one thing, he knows what an impact he can have on his employes. "If I do not have a smile on my face in the morning when I come in, no one has a smile on their face that day," he observes.

The key to demonstrating how important a manager thinks his people are, he says, is giving them constant reinforcement. That means telling employes they are doing a good job.

"It is awfully easy to criticize, but we have a saying around our house, 'Well, you are at it again with the three C's,' which means criticize, condemn and complain,"says Weatherup. He tries not to overdo the three C's on the job.

And when somebody messes up? Weatherup will not take an employe to task if it is late in the day, because he has found that the employe will go home and take it out on his family. "Whereas if I talk to him in the morning," he says, "the employe kind of moans and groans around the place that day, but when he goes home he has a good relationship with his family."

Weatherup learned a long time ago, he says, "the employe with a happy family is the best employe."

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ment offices and helping the small business community get more involved in exporting are two major goals Weatherup sees for the council.

Both are areas in which he has had direct involvement.

"You can call up my congressman and ask him if he feels I helped elect him," he chuckles, confident that Republican George C. Wortley III, of New York's 27th District, will say yes. Weatherup also was active in the successful re-election campaign last year of the county executive in Onondaga County.

LAST APRIL Weatherup and two other Syracuse businessmen formed Empire Trading Company, aimed at helping small businesses to export and import.

Weatherup has been thinking on an international scale for a long time, perhaps ever since he married Christine. His global awareness was sharpened when he prodded the Syracuse chamber to pair up with Tegucigalpa, capital of Honduras, under Caribbean/Central American Action, a program in which American chambers share expertise with chambers in the Caribbean Basin in order to spur development there. He takes the view that "the United States is no longer in a world of its own. We are truly international."

Because they have inherited their mother's culture as well as their father's world view, both Weatherup daughters have international ambitions. Joy aspires to a master's degree in international business, and Melina wants to practice international law. They are fluent in their mother's native Greek and are Spanish majors.

A conversation or business session with David Weatherup is punctuated with laughter as he needles others and makes fun of himself. One friend says humor is an important part of Weatherup's leadership.

"Evidently it is," Weatherup acknowledges, but he says he cannot describe how it works. "It is something I just do naturally."

If he is leading a meeting that is going nowhere because it is riddled with disagreement, "I say, 'You guys, I'm not comfortable with this meeting. I'm leaving.' And I act like I'm going to walk out." It is a technique that leaves them laughing—and breaks the impasse.

Weatherup says his wife believes he overdoes the humor. "I suspect it gets me in trouble sometimes," he concedes. But, he adds, "I know it has gotten me out of trouble, too." □

—Sharon Nelton

To order reprints of this article, see page 89.

Next Month in **Nation's Business**

Assault With a Plastic Weapon

Fraud by credit card has been mushrooming, victimizing banks, retailers and other businesses. Organized crime has given the problem a new dimension. How did it all happen? And how do you protect yourself?

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Congress and the administration are considering major changes in the rules that govern advertising. The changes would affect both what and how businesses can advertise. A central issue: defining "deception."

How To Behave in the Spotlight

Things often go wrong when private enterprise has to communicate with the public. A special feature covers such topics as making a good speech, handling hostile media interviewers and setting policy for spokespersons.

Leaders in the Science of Life

Biotechnology promises many startling developments in medicine and business, like curing the common cold and transforming bacteria into mine workers. American small business leads the world in this science of life.

SPECIAL REPORT

Luring The Business Traveler

Hotels, airlines and other parts of the travel industry are trying to make business trips more of a pleasure.

By Bob Gatty

For a growing number of business people, building a conference around a fishing excursion to Alaska is a good way to open up communication in a group.

Air Atlanta, one of the airlines spawned by deregulation, is geared tota to the business traveler, with such services as ticketing at the ga

A YOUNG account executive was talking about a trip to a fishing lodge in Alaska, offered as a sales incentive by his boss, a California roofing contractor: "I'd work my head off to go."

The fresh air and the pristine lakes and streams loaded with rainbow trout are bringing increasing numbers of business people to the Alaskan wilderness. Sometimes they are brought there as a reward for a job well done, sometimes because it is the location of small conferences.

"Getting our people out of the pressure cooker opens up communications and brings us together," says one experienced construction engineer, whose firm regularly holds planning meetings in Alaskan lodges.

Morry Israel, president of Alaska's Sportfishing Lodge Association, says professionals who must comply with periodic educational requirements have used Alaskan lodges for seminars and conferences. He says the feeling of adventure that goes with a fishing trip to Alaska helps get people thinking, talking and coming up with new ideas.

"People laugh with each other about how they played a fish," he says. "After a day's fishing, they can enjoy a cocktail, and the edge is off. Problems are easily discussed and solved. Quality communication is the basis of any organization's effectiveness. That's why they come up."

A fishing excursion to Alaska is certainly not a typical business trip, but the underlying purpose—to communicate effectively—is the same whether the destination is a posh country club in Palm Beach, a luxury hotel in Washington or a modest motel conference room in Peoria.

Today business travel provides about 29 percent of annual revenue for the nation's travel industry, including hotels, airlines, rail and bus companies, rental car firms, travel agencies, resorts and most restaurants. For some segments of the industry, business travel is much more important.

"If it weren't for business travelers, who account for about 80 percent of our market, Hyatt would be out of business," says Jim Evans, vice president of sales and marketing for the Hyatt Hotels Corporation. "So you can see why we are especially pleased that, by all current indicators, business travel activity is increasing."

But, Evans says, the "golden years" of the late 1970s, "when customers came knocking on our doors to get in," are gone, in part because hotels have built new properties to catch up with room shortages in many key cities. In addition, business travel declined with the recession.

"As travel stagnated," Evans explains, "and individual business travel even decreased, new hotels opened their doors." The result: a glut of hotel rooms in most major cities and heated competition among hotel and motel companies.

Things got better in 1983, according to Laventhol & Horwath, the Philadelphia-based international business accounting firm. Average occupancy was up slightly over 1982, the first such increase in three years.

EVANS SAYS business travel is expected to increase this year, provided the economy stays healthy. The 1984 elections will generate a sizable amount of business travel, as will the Olympic Games this summer in Los Angeles. Laventhol & Horwath is predicting a 3 percent increase in hotel occupancy over 1983, much of it due to business travel.

Convention spending is expected to increase, too. Meeting and conference planners are reporting fatter budgets for this year than last.

Despite this, Evans predicts that the real increase in business travel this

year will come from individuals who, because of the recession, had been staying home or significantly reducing travel expenses. Evans looks for much of that growth to come from people in these fields: financial services, office and computing equipment, medical diagnostic and educational software equipment, electronic components and scientific equipment.

"Our research shows these people will take more frequent but shorter trips than they did in the late '70s," notes Evans. "They also will be looking increasingly for convenience and value for their dollars."

More women will be traveling on business, too, continuing a trend that now sees them accounting for nearly 30 percent of the market, compared with less than 1 percent in 1970.

These individual business travelers, a recent study by MasterCard International shows, are sharply divided on what they look for in a hotel.

About 30 percent like to go first

PHOTO: AIR ATLANTA

class; the rest are much more cost-conscious and will, in many cases, gladly sacrifice convenience for a lower rate. They look for a basic room—clean, quiet and reasonably priced.

Hotel companies are adopting strategies aimed at specific segments of the market, and business travelers can thus expect to have an increasingly large variety of lodgings to choose from.

Holiday Inns, like Ramada Inns and Quality Inns, has opened luxury hotels in several markets. But in addition, Holiday Inns has launched a budget chain of "Hampton Inn Hotels," offering rates far below those of full service hotels. Even the budget facilities, however, will have such amenities as a free continental breakfast and satellite television entertainment.

Hyatt's Evans predicts that rates will remain relatively stable throughout the industry and that corporate rates "will remain a key" to attracting companies that do volume business. There will, he says, be an increased number of frequent-traveler programs, like those used by airlines, to woo the individual business traveler.

Several chains have introduced special floors for business travelers, providing amenities beyond those offered other guests. To attract female executives, hotels have begun offering features like extended room and valet service, makeup mirrors and hair dryers, light food entrees and extra attention to security.

Increasing numbers of hotels are offering videoconferencing, although Evans predicts that it will never replace face-to-face meetings. Some hotels are also offering computer terminals in their rooms, so the customer can shop and obtain travel and entertainment information by punching the keyboard.

Hyatt last September introduced a self-service computer terminal enabling guests in the Hyatt Regency Chicago to check themselves in and out in just 90 seconds by using a major credit card. Since the response was "great," Evans expects the service to be added to Hyatt's other large convention hotels.

One area of the travel industry that is undergoing both expansion and change is the cruise business. Passenger capacity of cruise ships using American ports is increasing—from 33,000 in 1980 to 46,000 by the end of this year—and individual lines continue to grow.

The Norwegian-Caribbean Line, for example, began with one ship operating out of Miami and now has five. Its latest acquisition—part of a trend toward larger ships for Caribbean cruises —is the *Norway*, which saw earlier service as the transatlantic liner *France*.

Why the surge in cruise business? Arthur W. Kane, Norwegian-Caribbean's vice president for corporate relations, says marketing is a major factor.

For one thing, cruise lines consider companies an increasingly important source of revenue. More firms are using cruises to reward outstanding employe performance and as a setting for retreat-type meetings away from the normal work environment.

Younger age groups also fit into the new marketing strategy. "Ten years ago," Kane explains, "our passengers were mostly retirees or other members of the older set. There weren't many young families."

Airlines are also competing fiercely to attract business travelers, who pro-

PHOTO: HYATT HOTELS CORPORATION

Jim Evans of Hyatt Hotels: His chain depends on business travelers for 80 percent of its market—and competition for those travelers has gotten stiff.

vide 51 percent of the industry's traffic.

Some airlines have established special business classes, where customers have more room and other amenities than in coach but less than in first class—with fares substantially lower than in first class.

Predominantly, business class is offered on international flights. TWA, in its international business class, offers amenities that include meals served on real china, a choice of three main courses, complimentary cocktails and in-flight entertainment, and special check-ins.

Says Steve Kansagor, a TWA marketing manager: "TWA's commitment to both domestic and international business class service is based on recognition of the business flier as an increasingly important source of revenue for the airlines."

LIKE THE LODGING industry, airlines are going after special segments of the market. There are low-cost, no-frills airlines, such as People's Express. There are airlines, like Chicago's Midway, that cater to business people traveling to and from a specific city.

Eastern's shuttle between Washington and New York City is geared specifically to business travel. New York Air is competing head-to-head for the same market.

A new company, Air Atlanta—it began service February 1—is designed totally for business travelers, according to President and Chief Executive Officer Rod A. Brandt, a former Pan Am executive.

Air Atlanta has flights from Atlanta to Memphis and New York City. Its amenities include ticketing at the gate—an area more like a club than an airline gate—a complimentary business newspaper, a roll-on rack for hanging suit bags, and fewer and wider seats

than on regular airplanes. At the same time, says Brandt, rates are competitive with those of the major carriers.

The increased competition has led established airlines to look for ways to improve passenger service. At American, Kiernan says these added touches include providing advance boarding passes when reservations are made, performing foreign currency transactions, reserving limousines and sending telex messages worldwide.

"We are also exploring options for the business passenger to review travel services personally through videotex programs, cable television or even his home or office computer," Kiernan says. In fact, he adds, someday it may be possible for the consumer to make airline reservations through his personal computer.

Deregulation has made it easier for a company to go into the airline business. Kimberly-Clark, the paper company, discovered that poor local air service was costing it millions in travel time and expenses.

Thus, this spring it is launching Midwest Express, a low-cost, business-class carrier providing the only direct service on the route most heavily traveled by its employes—between Appleton, Wis., where it is headquartered, and Atlanta. The carrier will save money on employe travel and generate revenue from nonemploye customers.

THERE IS PLENTY of room for business to economize on travel, says H. Robert Heid, director of the travel expense management systems division of PHH Group, Inc., a business services company. Last year, he notes, the total corporate outlay for travel and entertainment was $72 billion.

Who spends the money? Heid says it is all sorts of business people, from the board chairman down. But day in and day out, he says, it is the sales-service employe "who drives the travel and entertainment cost curve in most companies today."

Air fares and lodging have led the increases in travel costs over the past five years, Heid notes, and he predicts another 7 percent rise this year. By 1990, he forecasts, the average annual travel outlay for the business traveler will reach $12,000, compared with $7,264 last year, unless steps are taken to manage this expense.

Companies, he says, should fine-tune their policies on travel at least once a year and distribute copies of a policy statement to each employe. He advises: "The most state-of-the-art strategy is introducing policy language that addresses economy and efficiency—not in vague terms but in rifle-fire fashion, identifying, for example, the names of travel suppliers who offer cost savings as well as convenience and comfort."

Some companies, he says, are using travel efficiency as a factor in evaluating employe performance and are finding that helpful in keeping costs down.

Heid predicts that by 1990 training employes to manage travel dollars better will become standard practice.

William D. Toohey, president of the Travel Industry Association of America, notes that every business trip has its own purpose and that business travelers' requirements vary. "It is the industry's job," he says, "to meet those needs and to emphasize the importance of providing high-quality service."

That, indeed, is the bottom line. Business people today are demanding value for their money. The hotel company, the airline and the rental car firm that provide it can expect to succeed both today and in the years ahead. □

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Tax-Deductible Travel

By Steven F. Holub

TAKING ADVANTAGE of income tax deductions for business travel is essential to minimizing your tax bill. Generally, ordinary and necessary expenses may be deducted from gross income, but adequate documentation is essential.

To deduct the cost of a business trip, the taxpayer must be able to prove that the trip was necessary in the course of doing business. He must also establish the amount spent, the places where it was spent, the travel date and the business purpose of the expenditures.

Expenses of a spouse are deductible where the taxpayer can show that the spouse's presence serves a bona fide business purpose.

For travel outside the United States, business and pleasure expenses must be allocated, with no deduction allowed for the pleasure portion of the trip. However, if the trip is for one week or less, or the pleasure portion is less than 25 percent of the time spent, no allocation is required.

Individuals attending foreign conventions other than those in Canada, Mexico or some Caribbean nations that have signed reciprocal agreements with this country cannot deduct their expenses if the convention could have been held as easily in the United States or these neighboring nations.

You are not in a "travel" status unless you are away from home overnight. If you are, all travel-related expenses, including air fare, meals, lodging and tips, are deductible. Personal expenses not connected with the travel, such as bar bills or movie tickets, are not deductible.

Charging deductible expenses is the easiest way to document them. However, a credit card company's charge ticket does not meet the taxpayer's full burden of proof, according to the Internal Revenue Service. Also required is an actual receipt for any expenditure for lodging and any other expenditure of $25 or more, except for transportation.

Taxpayers should keep the separate receipts and ticket stubs for each charge and make notes on them of any special circumstances—flagging nondeductible bar charges to the hotel room, for instance. They can then be matched with the statement from the credit card organization and a check remitted.

WHAT IF YOU PREFER to pay cash? You must obtain itemized receipts. According to IRS, if you keep an "account book, diary or similar record" with entries "made at or near the time of the expenditure," this record will constitute an adequate substantiation for expenses under $25.

Thus, all you need do to substantiate the cost of meals paid for in cash is to log them each day into a journal. This should show the date, place, amount

STEVEN F. HOLUB, *a partner in the accounting firm of Laventhol & Horwath, is director of the firm's government services group in Washington.*

and the name of the person entertained, if any. The same technique can be used to substantiate other travel expenses, such as telephone or taxi.

A diary's usefulness cannot be overemphasized. A contemporaneous record of actual expenses carries great evidentiary weight, with both IRS and the courts. If filling out a diary is not your thing, consider using a tape recorder.

Deductions may be taken by either the business entity or the employe. However, unless an expense can be substantiated, it cannot be claimed by either as a deduction.

The employe who pays his own expenses and is later reimbursed by his employer must fully substantiate the expenses to the employer, who will, in turn, claim them on the business tax return. The employe who fully accounts to his employer need not report either the expense or the reimbursement on his personal tax return.

On the other hand, if reimbursement exceeds expenses, or expenses exceed reimbursements, the employe must report the entire amount of reimbursement as income and then deduct the actual expenses incurred—and be prepared to substantiate them as required.

The rules permit IRS to authorize per diem, mileage and travel allowances that may be taken. Under these rules, if you receive a reimbursement from your employer for a travel expense for an amount equal to or less than the government's rate for civil servants, further documentation is not required. Rates vary, depending on the section of the country.

In order to reduce the recordkeeping burden, IRS has standardized per-day meal allowances, which may be taken as a deduction without documentation while away from home on a trip. This rate is currently $14 per day for travel requiring a stay of less than 30 days, and $9 per day for travel requiring a stay of 30 days or more.

Business executives must know and abide by the rules if they want to benefit from tax deductions for travel. Though burdensome, the rules are easy to apply. Just remember: Documentation is the key. □

Keeping Vacations Healthy

Dr. Theodore C. Doege, director of the American Medical Association's environment and occupational health program, recently returned from a few days' vacation on Padre Island off the Texas coast.

He practices what he preaches. Doege believes a periodic vacation is necessary for everyone, and he recommends taking several short breaks during a year instead of one extended vacation every year or two.

To get the most out of physical vacation activities, Doege suggests a pattern of exercise year around. This, he says, will add enjoyment and, in the event of accident or illness, increase chances of recovery.

Doege uses the word "moderation" repeatedly when talking about vacations. In terms of physical activity, this means "start out slowly."

Don't pack up your work worries with your golf clubs or swimsuit, Doege advises. Let your people know where you can be reached in case of emergency but let them take care of business while you are away.

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The Filing Deadline Approaches

By Gerald W. Padwe, C.P.A.

That time is almost here again. Your income tax return is due by April 16 (a day later than usual, since April 15 is on a Sunday this year). If you hope to put off the day of reckoning, however, here are a few pointers:

Extensions. An extension of four months—to August 15—may be obtained for your Form 1040 by filing Form 4868 instead. The extension must be accompanied by an amount that will bring your tax deposited (through withholding or estimated tax payments) to 90 percent of the tax you finally report on your return. Otherwise, you may be subject to penalty.

Note: Your state may allow the filing of Form 4868 to operate as an automatic extension for the state return as well. But check carefully, since in some states you must file a separate extension request with the state.

Taxpayers abroad. If you are out of the country April 16, you automatically have a two-month extension to file Form 1040, even without filing Form 4868. In that situation, the 90 percent rule discussed above does not apply, and the extension of time to file also extends the time to pay. (Interest, though, will be due on the unpaid amount by June 15.)

Whether you are back in the States or still abroad on June 15, if you need more time to file, the Form 4868 is then available for an additional two months (to August 15), with the 90 percent rule back in effect.

Timely mailing as timely filing. The Internal Revenue Code provides that if any "document" (including a tax return) must be filed before a certain date, "the date of the United States postmark" shall be considered the date of delivery. Thus, post offices across the country will again be open until midnight April 16.

What about the overseas taxpayer who finishes his return on June 10 but despairs of getting it to the Internal Revenue Service in this country by June 15 and will be able to show only a pre-June 15 foreign postmark? A 1980 IRS ruling makes life a little easier for that taxpayer by recognizing an official postmark of the foreign country in lieu of the U.S. postmark.

Note that the "timely mailing" rule applies only to the U.S. Postal Service. The U.S. Tax Court held in a 1982 case that delivery was not timely when the taxpayer had a Federal Express receipt from the official due date but the document was delivered the next day.

Moral: When it absolutely, positively has to be dated today, you should take it to the post office—even though it may actually reach IRS sooner if delivered by private courier.

The Bell Tolls

Remember Ma Bell? She departed January 1, bequeathing to stockholders a greatly reduced version of her former self plus seven new regional holding companies. They own a large group of little Bells that are carrying on local telephone operations.

She also left some tax problems for the 3 million owners of her 950 million shares of common stock. Each 10 shares of Ma Bell—from here on, "old AT&T"—translates into 10 shares of the new AT&T plus one share in each regional holding company. Stockholders whose share ownership is not evenly divisible by 10 will be allocated fractional shares in the regionals, but no fractional shares will actually be issued.

Stockholders with fewer than 10 or more than 500 old AT&T shares will automatically receive checks for their fractional share interests. As for owners of 10 to 500 old AT&T shares, they have been informed that they can trade shares in one or more regionals for those in another, to avoid a proliferation of tiny shareholdings.

Sales or trades of fractional shares are taxable. And thereby hangs a taxpayer's nightmare—or, possibly, an accountant's dream.

Presumably, you know your cost in the old AT&T shares. That same cost carries over to your basket of new shares (new AT&T and regionals—both whole and fractional units). The allocation of that cost to the new basket is based on the relative fair market values of the shares in the basket as of Jan. 1, 1984, by which time trading in them had already begun.

January 1 was on a Sunday this year, and the market was not open between December 30 and January 3, but the average of the high and low prices for those two days governs the allocation.

The tax cost of your old AT&T will be allocated in the following percentages to the various shares you receive from the divestiture:

New AT&T	28.50%
Ameritech	10.33
Bell Atlantic	10.49
BellSouth	13.53
NYNEX	9.84
Pacific Telesis	8.88
Southwestern Bell	9.49
USWest	8.94

To illustrate, assume you owned 72 shares of old AT&T, purchased some years ago for $50 a share. Your total cost, therefore, is $3,600, and you will have 7.2 shares in each regional.

Assume further that, since you live in Atlanta, you decide to sell your interests in all the regionals except BellSouth and to reinvest the proceeds in additional BellSouth stock. Your 7.2 shares of NYNEX have an allocated cost to you of $3,600 x 9.84 percent, or $354.24.

When your stock is sold, your gain or loss on the 7.2 shares of NYNEX will be the difference between the proceeds from them and the $354.24.

Since that was pretty easy, you will be delighted to know that you may now have the pleasure of going through the same type of exercise for any fractional share interests in other regional holding companies that are disposed of in like manner.

What you will not be delighted to know, however, is that shareholders in old AT&T will have to consider one additional wrinkle in computing tax on distribution of regional holding company shares. That will be discussed in next month's column. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

GERALD W. PADWE *is national director–tax practice for Touche Ross & Co.*

Energy Supplies: Danger Ahead

Despite the abundance and stable prices of today, this is not the time for smugness. There are pressures on costs, and shortages may lie around the corner.

By Henry Eason

PHOTO: TANNENBAUM—SYGMA

PHOTO: DAVID WOODCOCK

Forty nuclear power plants are under construction nationwide, including this one at Salem, N.J. Energy Secretary Donald Hodel says many more nuclear facilities are needed for future growth.

FEW U.S. BUSINESSES take Majnoon and Kharg islands into account when estimating energy costs. Experts on energy trends do. They know that what happens to those islands and other Middle Eastern trouble spots can ultimately affect the world energy situation.

That situation has, in recent years, been almost utopian: plentiful supplies at stable prices.

But energy experts in both government and the private sector say it is now time for Americans to recognize developments and forces that signal the end of that era. What the future holds, they say, is not a guarantee of sufficient supplies at constant prices, but, at best, a choice between the two.

Factors changing the outlook are both global and domestic.

On the world scene, the Iranian-Iraqi war remains a continuing threat to the flow of Middle Eastern oil to industrial nations.

Iran has seized Majnoon Island, site of a major, undeveloped source of crude oil. Iraq has threatened to attack Iran's principal oil export terminal, which is on Kharg Island, if it cannot retake Majnoon.

In addition, Iran makes recurring threats to close the Straits of Hormuz, which link the Persian Gulf oil nations to the rest of the world.

Persian Gulf turmoil, U.S. Energy Secretary Donald Hodel says, points up "what a thin lifeline of oil" the Middle East provides. It is, he says, "a lifeline we can't afford to become complacent about."

Though the present world oversupply of oil could mean still further price reductions later this year, Hodel says, "supplies are subject to interruption at a moment's notice at the hands of any number of persons or events."

The United States is relatively better off than many other industrial nations because of its domestic oil supplies, strategic petroleum reserve and alternative sources of energy, Hodel says, but any significant reduction in world supplies would force up prices to all consuming nations. He offers this advice to U.S. business people:

"The most critical issue facing this country in energy is our continuing dependence on oil. If I were a businessman and were making decisions about what to do regarding energy supplies, I would not be willing to gamble the long-term future of my company on a reliable, low-cost supply of oil."

AS FAR AS energy generally is concerned, the U.S. situation "looks good on paper," Hodel says, but "we are not doing a good job as a country, at this point, in preparing for [growth in energy demand] that exceeds our present forecasts, which are very low compared with our historic growth rates."

Energy industry leaders echo Hodel's concerns.

Robert Scherer, board chairman of Georgia Power Company and chairman of the U.S. Committee for Energy Awareness, says the current, short-term reserve of power could disappear if the recovery continues to accelerate. "Underplanning could be placing a cap on our future economic growth," he says.

Says Carl Walske, president of the

Coal, the leading fuel used to generate electricity, is plagued by problems—rising transportation costs, demands for action on acid rain—that could lead to higher utility bills. Georgia Power Chairman Robert Scherer sees a need for better energy planning if the economy is not to suffer.

PHOTO: ARTHUR GRACE—SYGMA

Atomic Industrial Forum, trade organization for the nuclear power industry: "Cheap oil and gas are disappearing, and the cost of burning coal and uranium in power plants is going up. Nuclear plants in construction are going to cost three times as much as plants now in operation."

Coal, now the leading fuel used in generating electricity, also faces problems, says National Coal Association President Carl Bagge. Among them are increases in transportation and other costs and concerns about acid rain that could force expensive and possibly unneeded controls on coal users.

Secretary Hodel says the absence of visible energy problems in the near term is obscuring the critical necessity for long-range planning to assure energy adequacy in the 1990s and beyond.

The dearth of current planning represents a particularly serious problem for the electric power industry Hodel says, because of long lead times involved in constructing generating plants. "Before we realize we're running short," he says, "we'll be at the point where we won't be able to build capacity in time."

With only 3 percent annual growth in electricity demand, Hodel points out, the country will need 250 to 500 more power plants by the year 2000 (the exact number will depend on how large the plants are).

"We're not building anything like that now," Hodel says. "We have to remember that 1994 is today in the electric utility industry. If we see we're going to need more power in 1994, the plans should be coming off the drawing boards right now. It takes that long to build."

He sees a similar lack of foresight in natural gas production: "Drilling is way down. We have 30 trillion to 70 trillion cubic feet of gas—close to the surface, easily available—that will not find its way to the market because we have federal laws preventing it from doing so. People can't drill for it, sell it at the [federally] controlled price and get back their investment."

THERE ARE additional problems with other forms of energy. Hodel says: "Nuclear energy has been severely damaged as far as new orders [for plants] are concerned. There is an effort to foreclose additional federal leasing for coal production and leasing for oil and gas exploration on federal lands and the outer continental shelf."

Over the past decade more than 100 nuclear power plants under construction were abandoned. Only 80 are in operation, although another 40 are expected to begin generating power within the next 10 years.

Hodel sums up: "All of this has the effect of restricting energy supply sometime in the future, in a nation that has enormous energy resources potentially available."

The Secretary believes business can take specific steps on its own to ease its energy problems: "Look for domestic resources to meet energy needs and don't overlook conservation."

Companies must be shrewd in selecting an energy mix that will be reliable and affordable, he says.

Advancing technology makes it increasingly possible to take advantage of renewable energy resources, such as solar power, in new and rehabilitated buildings, Hodel notes, with savings resulting not just from lower fuel costs but from tax credits that encourage energy savings.

He also sees the possibility of ultimate scientific breakthroughs—"ones you and I can't even conceive of today"—that will help assure energy self-sufficiency.

Told that his overall perspective on the energy future is a mixture of pessimism and optimism that makes it difficult to draw a bottom line on his position, Hodel replies:

"You're not going to get a bottom line, but, fundamentally, I'm an optimist. There is a tremendous energy supply in this world.

"However, human beings have a tremendous capacity for messing things up. So, when I say I really am an optimist, I don't mean that we can be careless about how we plan for the future." □

We gave Darby Maish the ASAP FIVE™ database manager, a manual, an IBM PC, and a job to do.

She finished in 1 hour.

We gave Helene Kollinzas the leading competitor, a manual, an IBM PC, and the same job.

She barely got started.

Darby Maish, an administrative assistant with no computer experience beyond word processing and simple filing, got the ASAP FIVE database management system up and running in minutes. She created a form, entered 30 data items, and sorted the data in one hour!

Using the leading competitor, telemarketing rep Helene Kollinzas couldn't even finish creating the form, although she uses VisiCalc® in her job every day. Small wonder, with a manual that has instructions like PIP B: <Filename.ext> on the first page.

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Making VDTs Easier on Eyes

By Stewart R. Ward, O.D.

TOM M., a vice president of an insurance firm, never expected it to happen to him. But there it was, a computer terminal alongside his desk. The technology that transformed the steno pool into the word processing center had invaded the executive suite.

In addition to some anxiety about learning to use the computer, Tom was concerned about how it might affect his health, particularly his eyes.

He had heard that video display terminals emit radiation and might cause cataracts. He also was familiar with complaints from some of the company's clerical staff, who had been using VDTs for more than a year. They talked about headaches, blurred vision, itching and burning eyes, eye fatigue, flickering sensations and double vision.

If computers are revolutionizing your office, you probably share Tom's concerns. What can you do?

For one thing, you can dismiss any worries about radiation from VDTs as a cause of cataracts. Numerous studies, including two done by the National Institute for Occupational Safety and Health and the National Research Council, have found no scientific evidence that VDTs cause cataracts. In fact, VDTs emit less radiation than do common fluorescent lights, sunlight and other natural and man-made sources.

These same studies show, however, that the common eye complaints made by VDT workers are not a figment of the imagination. Eye problems do occur frequently and are more likely to be found among clerical than executive staff even when both use VDTs.

Marge H., head of a word processing department, was nearing a labor dispute with her clerks until an optometrist pointed out that her staff was spending more time using VDTs and doing less varied work with them than she, as an executive, was.

It is the length of time a VDT worker is involved in intense concentration on the screen that is related to stress on the eyes. The executive usually integrates VDT use with other work, going back and forth between tasks. Clerical people often do not do this; instead, they spend most of the workday looking at a VDT.

Because VDT work makes unnatural demands on the eyes, it can aggravate existing vision problems.

NEVERTHELESS, anyone is susceptible, because VDT work tends to make unnatural demands on the eyes. VDTs call for intense concentration on a task a couple of feet away, at most. Our eyes are most efficient seeing into a far distance.

There is no scientific proof that VDTs cause or contribute to nearsightedness or farsightedness. But they can aggravate existing vision problems—even minor ones you do not know you have, because they do not interfere with normal seeing tasks.

Bob W., a 43-year-old purchasing agent, found he was using his computer terminal as little as possible because it was giving him headaches. He mentioned the headaches to his optometrist, who found that, while Bob could focus his eyes comfortably on reading material, the early stages of presbyopia—a near-distance focusing problem that comes naturally with age—were causing him to exert extra effort to concentrate on his VDT's screen.

Bob now has glasses to wear when he uses his VDT. As his presbyopia progresses, he will need glasses for other near work as well, but he may continue to have a separate pair for VDT work.

You or your company can take a number of steps to make working at a VDT easier on eyes. Among them:

- Place reference material the same distance from your eyes as the screen to avoid having to change focus when looking from one to the other. Muscles inside your eyes must work every time you change focus, and frequent changes may cause you to feel tired.
- Use proper furniture, such as adjustable chairs that enable you to sit at the proper angle to the VDT screen. Generally, the top of the screen should be 10 degrees and the center 20 degrees below your straight-ahead seeing position. The screen should be 14 to 20 inches from your eyes.
- To keep down glare, maintain overall lighting at 30 to 50 footcandles, which is less than half the customary office lighting level. VDT screen brightness should be three or four times greater than room lighting.
- Locate the screen so that windows and other light sources are not behind you, and use drapes to reduce glare.
- Use localized lighting, like flexible lamps, for other desk work. They should be shielded and placed to avoid glare on the work surface or the VDT screen.
- Take adequate breaks, alternating VDT work with other tasks. The National Institute for Occupational Safety and Health recommends a 15-minute alternate task break after two hours of continuous, moderate VDT work (less than 60 percent of operator time looking at the screen).

For more information on vision and VDTs, send a self-addressed, stamped business-size envelope with your request to Communications Division-NB, American Optometric Association, 243 N. Lindbergh Boulevard, St. Louis, Mo. 63141. □

STEWART R. WARD, O.D., *is a former chief of the occupational vision branch, occupational and environmental medicine division of the U.S. Army environmental hygiene agency. He practices optometry in Missoula, Mont.*

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Government Bonds' New Allure

By Ray Brady

TAKE A LOOK at Post Five on the crowded, busy floor of the American Stock Exchange, and you would swear this is where they must be trading in the hottest growth stock in town.

Orders to buy are flooding in. Clerks in dark green jackets, clustered around the post, are hard-pressed to keep up with the 40 telephones that keep ringing with more orders.

What is being traded at Post Five, however, is no gee-whiz high tech stock or hot new issue. It is a once-staid investment that used to be bought primarily by banks and insurance companies—U.S. Treasury securities.

With the outlook for the stock market seemingly less bright, many small investors have turned to Treasuries. And giant professional investors, such as pension funds, have increased their holdings of Treasury and other bonds. Some have as much as half of their portfolios in bonds.

One professional money manager sums up the appeal of government securities succinctly. "Where else," says he, "can I get a return of nearly 12 percent on my money and sleep like a baby at night?"

Where else indeed? And, as many money managers point out, with inflation now running at an annual rate of around 4 percent, the current yield on a government security means the investor is getting a real (after inflation) return on his money of perhaps 8 percent.

Because the United States government would never default on its debt, U.S. Treasury securities are considered the safest investment in the world. Until maturity, however, their value can rise or fall as interest rates rise or fall. And, since they are so safe, the return they provide is usually not as great as on privately issued bonds.

Government securities come in three basic types. Those running for 3, 6 and 12 months are called bills. Those with maturities of 2 to 10 years are called notes. Those that mature in 15, 20 or 30 years are called bonds.

Newly issued Treasuries maturing in 15 or 20 years are not callable, meaning the issuer will not call in a high-yield bond to avoid paying a high interest rate—as many corporations can, and do. Treasuries maturing in 30 years cannot be called in sooner than five years before maturity.

That is a key feature. "More and more investors," says Frank Palazzolo, who operates Post Five, "are buying government bonds and putting them in their Individual Retirement Accounts. They figure the bonds can't be called, and in 20 years or so the money building up will be ready for them."

PHOTO: AMERICAN STOCK EXCHANGE

At Amex's Post Five, U.S. securities are popular.

INTEREST ON bonds that go into IRAs is not federally taxed—until the money is taken from those accounts, that is—but there is no federal tax advantage on Treasuries bought for other purposes. However, the income is free from state and local taxes—adding to the incentive to buy if you live in a heavy-tax state.

T-bills, whose minimum denomination is \$10,000 (some bonds and notes can be bought in denominations as low as \$1,000), are auctioned regularly by the Federal Reserve, and notices about the auctions appear in business sections of newspapers. The best way of buying T-bills, generally, is through one of the Federal Reserve district banks scattered around the country. Normally the investor simply gets a form from the Federal Reserve bank and fills it out, although a purchase can also be made by mail.

When your investment matures, the Treasury will send you a notice asking if you want to renew it, or if you want your money back. With places like Post Five around, government securities can, needless to say, be sold before maturity. Here, though, the investor pays a price: a commission to a broker or a banker, because this kind of selling cannot be done through the Fed.

The investor interested in the intricacies of the government bond market will want to know about another type of investment, federal agency securities, which have minimum denominations of \$5,000, \$10,000 and \$25,000.

Some, like those of the Government National Mortgage Association ("Ginnie Mae"), are backed by the full faith and credit of the U.S. government.

But others, like the Export-Import Bank's, are not (though there would be pressure on Congress to bail out an agency that got in trouble).

The income generally is not exempt from state and local taxes (one exception: Farm Credit Bank obligations). And such securities must be bought through a stockbroker or bank—which means paying that commission.

Due to their special nature, these types of bonds can be a tricky investment. Consider what happened to investors in Ginnie Maes. Basically, a Ginnie Mae represents a share in a pool of mortgages, and the holder benefits from interest payments on mortgages by homeowners.

Two years ago Ginnie Maes were yielding 17 percent, and investors flocked to get in on the high rate. But homeowners were watching interest rates as well; when rates dropped, many prepaid their high-rate mortgages, and Ginnie Mae holders got their money back—but no more of those fat returns.

Investors can also buy into Ginnie Mae mutual funds or unit trusts, which have been set up by a number of fund managers and brokerage houses.

A major argument for buying government bonds is that if interest rates drop in the future, bond prices will rise. If so, holders of Treasury securities could wind up with handsome capital gains.

One final note: In the recent, giant Texaco-Getty Oil merger, the major Getty owners insisted that the billions of dollars due them be paid off in government securities. □

RAY BRADY *is the business correspondent for CBS News.*

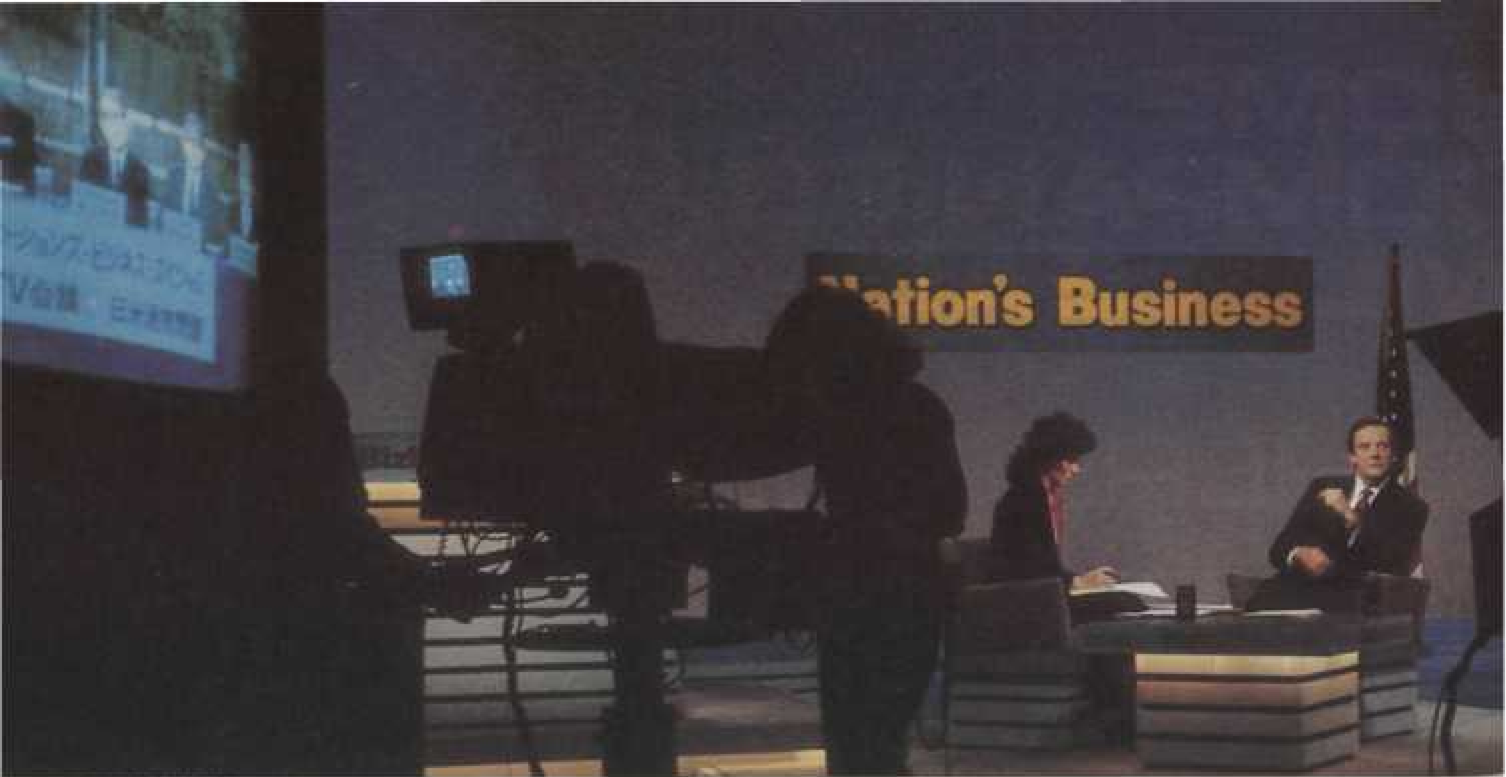

PHOTO: T. MICHAEL KEZA

An Electronic Bridge Over Troubled Waters

American and Japanese leaders talk trade in a televised Washington-Tokyo dialogue.

America's top trade official advises Japanese companies seeking plant sites in this country that they can avoid unitary taxes simply by avoiding states that impose them.

"The unitary tax is a pretty stupid tax," says U.S. Trade Representative William E. Brock, and the best way for Japanese businesses to combat it is by "choosing a more economic location" than a state with such a tax.

Brock's comment was part of an extended discussion on Japanese-U.S. trade relations, conducted via satellite between the capitals of the free world's two leading economic powers. Brock, in Washington, was responding to a question from Hirokichi Yoshiyama, chairman of Hitachi, Ltd., who was on a panel of Japanese business leaders assembled in Tokyo.

The videoconference was carried over the facilities of BizNet, the television system of the U.S. Chamber of Commerce, and was sponsored by Nation's Business in cooperation with Keidanren, Japan's largest business organization, and the state of Tennessee.

Five satellites carried images and voices between Tokyo and Washington for the unprecedented dialogue, which was designed to provide a private-sector forum for a discussion of Japanese-U.S. trade.

That trade, which now totals $63 billion a year, has been clouded by conflict in recent years, including one over the unitary tax. Thirteen American states tax multinational corporations operating within their borders on the basis of the corporations' worldwide income, rather than just their activities within the particular state. Yoshiyama said that unitary taxes were a cause of "trade friction."

Tennessee Gov. Lamar Alexander, in comments on the telecast, invited Japanese companies concerned about unitary taxes to locate in his state, which does not employ that method of taxation. Twenty-seven Japanese companies have already invested $1 billion in Tennessee, and they provide more than 6,000 jobs.

Many of the questions posed by the business leaders in Tokyo and many of Brock's candid answers underscored each country's perception of the other as excessively protectionist.

Brock renewed his recommendation that the two trading partners develop a new arrangement, starting with a preliminary declaration by each country of what it sees as its needs.

"If we really want competition, let's do it. Let's have at it. Let's open up the process, instead of putting up barriers all the time," Brock urged in a direct appeal to the Japanese business group.

Tatsuzo Mizukami, chairman of Keidanren's committee on foreign trade, declared that "Japanese firms are ready to support you" on convening a new round of trade talks "beneficial to world trade."

While the dialogue aired many points of difference on trade relations between the two countries, it also emphasized a strong commitment to efforts to resolve those problems.

Said Keidanren Chairman Yoshihiro Inayama: "The Pacific Ocean is no longer a geographical barrier separating Japan from the United States. I hope the videoconference will be a step toward understanding and economic cooperation."

U.S. Chamber President Richard L. Lesher, in Tokyo for the dialogue, said at its conclusion: "There is a spirit of cooperation, an intention to begin to solve some problems. It doesn't seem that anyone wants protectionism."

Japanese interest in trade with the United States was reflected in the front-page coverage that Japan's major newspapers, with circulation totaling

PHOTOS: U.S. CHAMBER OF COMMERCE

U.S. Trade Representative William Brock and moderator Meryl Comer were among those in BizNet's Washington studios (top left) for an unprecedented dialogue. Participants in Tokyo included (from left above) U.S. Chamber President Richard L. Lesher and Group Vice President Carl Grant, Keidanren Chairman Yoshihiro Inayama and Ambassador Mike Mansfield.

more than 30 million, gave to the videoconference.

The philosophy underlying the U.S.-Japanese relationship, as opposed to specifics of trade dealings, was emphasized during the dialogue in comments by each nation's ambassador to the other country.

From the BizNet studios in Washington, Japanese Ambassador Yoshio Okawara said, "We compete with each other vigorously and at the same time cooperate to maintain our free markets for better goods and ideas."

American Ambassador Mike Mansfield, speaking from Tokyo, sounded the same theme: "We are the two most important economic powers in the free world. The U.S.-Japanese relationship, in my opinion, is the most important in the entire world. So it's up to us to understand each other, not to castigate or throw barbs, but to try accommodation, solutions and compromises to alleviate difficulties so that we can strengthen our relationship."

Sumitomo Chemical Company Chairman Norishige Hasegawa, noting the United States' $19.3 billion trade deficit with his country, said America's trade problem stems more from the strong dollar—and thus from high interest rates—than from any unique difficulty in dealing with Japan.

"What we are afraid of," he said, "is the presidential election. In an election, [trade] problems tend to be politicized."

The Japanese generally expressed fears of an American backlash against the trade deficit—a backlash that is already taking shape in a drive for domestic content legislation to require that imported autos contain certain levels of American parts and labor.

Nippon Steel Chairman Eishiro Saito suggested that "direct dialogue between industries would be useful" (one already is occurring in the electronics field). Such dialogue could, he said, "avoid a head-on collision and avoid litigation."

Brock replied that "there is reason for concern about protectionism in the United States," but he stressed: "Protectionism is not limited to the United States. We are the most open trading country in the world."

BROCK APPEALED to the Japanese business leaders to make good their stated commitment to free trade. He told them: "I think I would be remiss if I didn't say there is a perception in this country that trade with Japan remains unequal because Japan denies us access to markets—beef, citrus, wood products, tobacco and software."

The Japanese also aired some of their own problems. Mitsui Senior Adviser Yoshizo Ikeda reminded the American business leaders that Japan's shipbuilding and aluminum industries have been performing poorly, and he noted that Japan, like the United States, has been through a recession.

Other panel members were Toshio Nakamura, chairman, Mitsubishi Bank, Ltd.; Yasushi Watanabe, president, Bank of Tokyo, Ltd.; and Taiichiro Matsuo, chairman, Marubeni Corporation. All the panel members also hold key posts in Keidanren.

U.S. Chamber Chairman Edwin D. Dodd set the stage for the dialogue in an opening message in which he said the business people in the two countries "have a common goal in reducing barriers to market access." □

—Henry Eason

THOSE IMPORTANT EXTRAS

Benefits That Bend With Employes' Needs

Flex plans can lower costs for employers and raise satisfaction for workers.

By Lance D. Tane and Michael E. Treacy

QUESTION: What do these four people have in common? John Nowinski, 25, single, no dependents; Linda Eads, 32, married, children 2 and 7 years old; Jean Faria, 36, now single, children 7 and 9 years old; Bill Hertenstein, 40, married, working wife and no children.

Answer: Only that they all work for the same company. Their priorities in employe benefits—medical coverage, life insurance, retirement benefits, vacation time and the like—are vastly different.

Yet, until recently, all received nearly identical benefits packages from their employer.

That has been the pattern throughout American business. The traditional benefits package has been designed for a male head of household with a wife who stayed home and cared for the children.

This made some sense in 1960, when 48.3 percent of all families were supported by one male breadwinner. By 1980, though, that figure had dropped to 33 percent. During the same period, the percentage of women over age 16 in the work force jumped from 37.7 to 51.3.

Profound changes in the composition of the work force have made traditional "one size fits all" benefits plans increasingly obsolete for employes, and spiraling costs are making them increasingly unaffordable for employers.

According to a U.S. Chamber of Commerce study, American employers spent a record $510 billion in 1982 on benefits for employes paid on an hourly

LANCE D. TANE *and* MICHAEL E. TREACY *are co-managers of the Flexible Compensation Team for the Wyatt Company, an employe benefits, compensation consulting and actuarial firm in Washington.*

Under her company's flexible benefits plan, Linda Eads cut back on medical coverage so she could "buy" extra days off with her children.

basis—more than three times the level of a decade earlier. (A full report on the Chamber study begins on page 84.)

Benefits expenditures, which for some years grew at a faster rate than wages—they did not do so in 1982—average almost 37 percent of payroll. Much of the growth of benefits costs is due to runaway spending on health care.

SPURRED BY SOARING benefits costs and major demographic shifts, flexible benefits programs are now on the threshold of explosive growth among employers of all sizes. "Flex" plans allow employes to tailor benefits beyond a certain core (minimal medical and disability coverage, say) to individual needs. Generally, the plans give each employe a specific dollar value of benefits "credits" that the individual can spend on a menu of benefits options.

John Nowinski, Linda Eads, Jean Faria and Bill Hertenstein are employes of Comerica, Michigan's second largest bank holding company. On Jan. 1, 1983, Comerica implemented a comprehensive flexible benefits plan, called "CustomComp" because it lets employes customize their benefits.

Employes must take some coverage in four areas, but they set the level.

For medical insurance, the choices are the previous plan, a high plan, a low plan, catastrophic coverage only or one of several health maintenance organizations. Life insurance is available at one half to four times annual pay. Employes can choose disability coverage of 50, 60 or 70 percent of pay. They can also "buy" up to five additional vacation days.

Four other benefits are completely optional: life insurance on dependents, a tax-deferred retirement savings plan (with a company match of up to $2,000 in employe savings) and the ability to pay for two items—child care and noncovered health care expenses—with untaxed dollars.

Nowinski says CustomComp influenced his decision to go to work for Comerica. Because of allergies, his medical bills are high, so he chose maximum medical coverage. On the other hand, with no dependents, he chose minimum life insurance. He also used credits to buy two extra days of vacation.

Eads has medical coverage under her husband's company's benefits plan, so she took the minimum medical coverage in CustomComp. With her remaining credits, she chose five additional vacation days so she could have more time with her children. She also participates in the health care and child care reimbursement programs. "I think this is a fantastic plan," she says. "Employers are really wasting money when they give people benefits they don't need."

As a single parent, Faria uses child care reimbursement to pay for sitters before and after school and during school holidays. She uses health care reimbursement to pay for medical plan deductibles and noncovered expenses. She added dependent life insurance and joined the capital accumulation plan to begin saving for retirement—"things I couldn't seem to afford before, when I had to use after-tax dollars," she says.

Hertenstein's wife has a good benefit plan where she works, so they tailored his coverage at Comerica to complement hers, choosing minimum medical coverage and life insurance. "We put our main emphasis on relieving our two-salary tax situation," he says. "So I moved most of my excess benefits into the tax-deferred capital accumulation plan."

These examples are typical of Comerica's overwhelmingly positive experience with flexible benefits. A company study revealed that an extraordinary 94 percent of participating employes elected to rearrange their existing benefits. "The fact that only 6 percent of our people wanted to buy back the old benefits package proved to us how much the flexible plan was needed," says Thomas E. Cain, vice president of employe benefits at Comerica. He adds:

"Because benefits mean more to employes with a flex plan, the employer's return on its benefits investment is higher. For the first time, employes become aware of the value of each benefit—and their appreciation of the company's benefits investment rises dramatically.

"At the same time, management regains control over long-term costs because our obligation is redefined. We are no longer committed to a specific set of benefits whose future costs are largely beyond our control—but to an overall level of expenditure that we control. The beauty of flexible benefits is that everybody wins."

Comerica is one of a growing number of companies, large and small, that have switched to flex plans. More than 50 comprehensive plans have been implemented, and many more are being readied. Plans are in effect at Mellon Bank, First Bank System, Mercantile Southwest Corporation, Sovran Bank, PepsiCo, Northern States Power, Brown & Root, Quaker Oats, LTV Corporation, J. & W. Seligman, the Rouse Company, American Can Company, Morgan Stanley and Cheshire Medical Center.

In addition to rising benefits costs and shifting demographics, two other developments have encouraged conversions to flexible benefits: changes in the tax laws and the computer revolution.

THE LEGAL BASIS for flex plans is the Revenue Act of 1978, which added Section 125 to the Internal Revenue Code. This section, covering employe selection of taxable or nontaxable benefits, allows employers to offer choices among both without sacrificing the tax-favored status of some benefits.

As at Comerica, flex plans typically allocate benefits credits to each employe—the amount varying with salary, length of service and other factors. If the total price tag of the benefits select-

For Bill Hertenstein and his wife, flex benefits provided the opportunity to reduce a two-salary family's tax burden.

ed is less than the available credits, the balance can be taken in cash (which is taxable). If, on the other hand, desired benefits exceed available credits, part of the employe's salary can be converted into benefits without being subject to tax.

Section 125 also makes possible the popular feature known as a reimbursement account, which enables employes to use untaxed dollars for a broad spectrum of expenses not covered in company plans: child care, personal legal services and such noncovered health costs as glasses, contact lenses, orthodontia, hearing aids and therapeutic devices.

Jean Faria, a single parent, says the benefits package that she chose allows her to do more for her children than she could "when I had to use after-tax dollars."

The financial impact of such an account can be substantial for many employes. Without a reimbursement account, for example, an employe in the 25 percent tax bracket has to earn $1,000 in order to pay $750 for braces for his child; the first $250 goes to taxes. With a reimbursement account, the employe saves that $250.

In effect, the employe places a given amount of his salary—not subject to tax—in the account, most often through regular payroll deductions. As eligible expenses are incurred, the employe submits paid bills to the employer and is reimbursed by the employer out of the set-aside money. Thus, a reimbursement account works much like a standard expense account, except that it is used for benefits rather than travel and entertainment, and it is funded by the employe.

Despite the appeal of flex plans, many companies still harbor reservations. There is, in particular, concern about the cost of overhauling traditional fixed-benefits plans and replacing them with flex plans.

While startup costs vary widely—depending on factors like the number of company locations and the sophistication of computer systems and employe communications—a company with 5,000 to 20,000 employes in multiple locations can expect to spend approximately $250,000 to $750,000 initially.

This will cover complete plan design and documentation, a comprehensive employe communications program, employe testing, sophisticated administrative software and extensive in-house training. Costs can be considerably lower for smaller companies.

For a true picture of the cost of a flex plan for a company of any size, however, startup and ongoing administrative costs must be measured against benefits cost savings. This depends largely on plan design. Some companies have paid for their investment in first-year savings; others reach the crossover point within a few years.

Technology is another stumbling block for some firms. Computers have helped make flex plans feasible for most companies. Microcomputers are now commonplace in large companies and increasingly in smaller firms. Computer chips care little whether they handle 500 employes or 5,000; they work in microseconds in either case.

A Checklist

Flexible benefits have growing appeal to all types of companies, but they are especially appropriate for certain employers. Affirmative answers to the following questions will suggest that your company—and its employes—could gain from a flexible benefits program:

- Does your company have a high percentage of younger employes, women or professionals?
- Do you sense a lack of appreciation among employes for the high value of benefits in relation to salaries?
- Is your company trying to attract and retain a higher caliber of employes than in the past, as competition increases or your industry changes rapidly?
- Is there a need to get better control over future benefits costs or to find immediate cost savings?
- Have you recently made or are you contemplating a merger or acquisitions requiring the integration of different benefits programs?

And sophisticated software is now available for every aspect of individually tailored benefits programs.

But firms with only a few hundred employes may not need to rely on computers at all. One medium-sized law firm reports that its bookkeeper simply spends an extra few hours a month keeping track of the flex plan.

Unionized work forces are often suspicious of flex plans, regarding them as "givebacks," but some of this resistance is giving way.

Under a plan negotiated between Aluminum Company of America and the Aluminum, Brick, Glass and Clay Workers, members receive basic health benefits and a credit of $700 per year in the form of a reimbursement account. At year's end, an employe may draw cash for the unspent portion.

The Amalgamated Clothing and Textile Workers has negotiated a flex benefits contract with Xerox, and the United Steelworkers has one with Carpenter Technology, a specialty steelmaker.

Another employer concern is the possibility that at some future date the Internal Revenue Service could mandate changes or disallow certain untaxed benefits. The risk stems from the inevitable lag—sometimes as long as 10 years—between the enactment of a law and the time when IRS issues final regulations for administration and enforcement. In the case of flex plans, more than five years have passed since enactment of Section 125, but no regulations have even been proposed.

IRS recently issued a press release indicating certain kinds of reimbursement accounts are not valid for tax breaks, startling companies that offer or plan to offer such accounts.

Clamor can be expected. Experts are optimistic that the reimbursement account concept will be upheld, but the dust will not begin to settle until regulations are issued.

Many companies, however, are finding that the advantages of a flex plan are simply too compelling to justify waiting until lingering legal uncertainties are cleared up.

Such companies are attracted by the opportunity to get a better return, in dollars and in employe satisfaction, on their benefits investment.

In the last analysis, whatever the fine-tuning, one thing is already certain: "Custom made" is the wave of the future as "one size fits all" fades into the past. □

To order reprints of this article, see page 89.

PHOTO: DAVID VALDEZ

Benefits costs are highest in the petroleum industry, lowest in textiles.

THOSE IMPORTANT EXTRAS

A Brake On Benefits

Employe benefits' climb, long steeper than that of wages, has been flattening out.

By James R. Morris

REVERSING a pattern of many years, wages grew at a faster pace than employe benefits in 1982, according to a study by the survey research center of the U.S. Chamber of Commerce. Benefits given workers paid by the hour have been the subject of Chamber surveys since 1947.

Benefits costs rose 183 percent from 1971 to 1982, while average weekly earnings rose only 139 percent—slightly more than inflation during the same period, as measured by the consumer price index. In 1982, however, benefits increased 8.5 percent over the year before, while average weekly earnings rose 11 percent.

Significantly, employe benefits, as a percentage of payroll, have not been rising as rapidly in recent years as they did before 1977. During the period 1977-82, the growth of employe benefits, as a percentage of payroll, was flattening out, unlike what happened in any earlier six-year period since the surveys began.

Employe benefits are rarely called "fringe" any more, and with good reason. They cost employers record sums year after year. Benefits amounted to more than one third of payroll dollars in 1982, averaging $138.21 per week per employe.

The total price tag for employers—for pensions, insurance, paid vacation time and holidays, coffee breaks and lunch periods, and many other benefits—was $510 billion, up from $485 billion the year before.

Preliminary estimates suggest that last year's figure will be $550 billion, and that this will rise to about $595 billion for this year.

The major types of benefits are (1) nonwage payments like Social Security taxes, insurance premiums, private pensions, unemployment compensation taxes, and similar benefits, totaling $93.88 per week per employe in 1982, and (2) wages paid for time not worked, including vacations, holidays, sick leave and rest periods, which came to $44.33 weekly per employe.

Of the more than 25 kinds of benefits covered in the report, six—Social Security, insurance, private pensions, vacation time, paid holidays, and paid rest periods and coffee breaks—each cost more than $10 per week. Together, they amounted to more than 77 percent of total benefits.

Social Security taxes for old age, survivors, disability and health insurance (FICA taxes) averaged $24.50 per employe per week. (This figure does not include an equal sum withheld from each employe's weekly wages.) This fast-growing benefit increased 243 percent between 1971 and 1982.

Payments by employers for

PHOTO: KRISTIN CALLAHAN

Benefits range from paid lunch periods and coffee breaks to Social Security, insurance and pensions.

JAMES R. MORRIS *is director of the survey research center of the U.S. Chamber of Commerce.*

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Employe Benefits Costs by Industry, 1982

	Per employe Per week
All industries	$138.21
Manufacturing:	
Petroleum industry	236.94
Primary metal industries	189.08
Chemicals and allied products	183.67
Stone, clay and glass products	171.33
Machinery (excluding electrical)	170.15
Transportation equipment	166.29
Fabricated metal products (excluding machinery and transportation equipment)	149.23
Food, beverages and tobacco	143.12
Printing and publishing	138.77
Pulp, paper, lumber and furniture	137.31
Rubber, leather and plastic products	133.08
Electrical machinery, equipment and supplies	130.71
Instruments and miscellaneous manufacturing industries	115.73
Textile products and apparel	68.92
Nonmanufacturing:	
Public utilities (electric, gas, water, telephone, etc.)	185.63
Miscellaneous nonmanufacturing industries (research, engineering, education, government agencies, construction, etc.)	135.35
Insurance companies	124.75
Banks, finance companies and trust companies	110.46
Hospitals	102.02
Trade (wholesale and retail other than department stores)	90.50
Department stores	65.75

Weekly Employe Benefits, per Employe

	1971	1982	Percentage Increase
Old age, survivors, disability and health insurance (FICA taxes)	$7.15	$24.50	243%
Insurance (life, hospital, surgical, medical, etc.)	7.10	24.50	245
Pensions (nongovernment)	7.73	20.00	159
Paid vacations	7.69	17.35	126
Paid holidays	4.69	10.63	127
Paid rest periods, coffee breaks, lunch periods, etc.	5.38	10.06	87
Unemployment compensation taxes	1.15	5.17	350
Workers' compensation	1.58	4.96	214
Paid sick leave	1.56	4.69	201
Profit-sharing payments	1.65	4.19	154
Dental insurance	N.A.	1.60	N.A.
Thrift plans	0.31	1.54	397
Short-term disability	N.A.	1.25	N.A.
Christmas or other special bonuses, suggestion awards, etc.	0.67	1.19	78
Salary continuation or long-term disability	N.A.	1.12	N.A.
Employe education expenditures	0.15	0.88	487
Employe meals furnished free	0.25	0.46	84
Discounts on goods and services purchased from company by employes	0.23	0.33	43
Other employe benefits	1.63	3.79	133
Total employe benefits	$48.92	$138.21	183%
Average weekly earnings	$158.85	$379.79	139%

N.A.: Data not available.

life, hospital, surgical and medical insurance also totaled $24.50 per week per employe. Also fast-growing, this benefit increased 245 percent in the 1971-82 period. A total of 1,507 manufacturing and nonmanufacturing companies—most of them medium-sized or large—participated in the Chamber survey.

Benefits costs varied widely among industries. Firms in the petroleum industry averaged $236.94 per week per employe, while textile products and apparel averaged only $68.92. In the nonmanufacturing sector, average weekly benefits ranged from a high of $185.63 for public utilities to $65.75 for department stores.

The range of benefits costs among companies also was wide. Ninety-six firms reported average weekly benefits of less than $60. At the other end of the spectrum, 200 companies averaged more than $200 weekly per employe for benefits.

Private pensions cost employers an average of $20 per week per employe. The petroleum industry's payments for pensions were highest, averaging $45.35.

Paid vacations cost $17.35 per week per employe. Employers paid for an average of more than 11 vacation days per year. The primary metals industries paid for 18 days, while at the other end of the scale textile products and apparel paid for nine days.

Employers provided an average of seven paid holidays at an average weekly cost of $10.63 per employe.

Another $10.06 weekly per employe was added to the benefits package in the form of paid coffee breaks, lunch periods, rest periods and other nonworking time.

Some benefits were provided by a small proportion of employers, but their expenditures were much higher than the average for all companies. Profit-sharing payments, for example, averaged $4.19 per week per employe for all respondent companies, but they averaged more than $18 weekly for the companies—23 percent of all respondents—that made profit-sharing payments in 1982.

The findings in this survey undoubtedly were affected by the severity of the 1981-82 recession and by the structural changes taking place in the economy as it adjusts to international competitive pressures. Both operated to affect the composition of employers' work forces. □

Employee Benefits 1982, *a 34-page report, can be purchased for $12 a copy from Publications Fulfillment, U. S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062, or call (301) 468-5128.*

Where I Stand

1. Compensation Cuts For Civil Servants?

Federal employes' compensation is supposed to be comparable to that of workers in private industry.

To achieve this goal, surveys are made of private sector pay scales. However, the President's Private Sector Survey on Cost Control—the Grace Commission—has concluded that these surveys are conducted by bureaucrats who tilt the comparison. For instance, surveys look only at large firms, ignoring the 96 percent of firms that are small and pay less, and use only five jobs to set levels from GS-12 to GS-14.

The Grace Commission reports that $16 billion could be saved annually by bringing federal pay, pensions and other benefits into line with those of private firms. And that estimate does not take into account that about half the workers in the private sector are eligible for no pension benefits other than Social Security.

Spokesmen for federal employes, including union officials, defend current practices as fair and have not backed congressional efforts to base federal pay scales on total compensation comparability.

Should federal compensation be cut to compare to private sector levels?

2. Place for Business In Jobs Training?

Training young Americans in the skills they will need in the marketplace is a challenging undertaking.

Federal funds for vocational education programs last year amounted to $730 million—about 10 percent of federal spending on education.

Vocational programs, which train the disadvantaged, educate future consumers, upgrade curricula and finance state advisory councils, have drawn congressional support.

Bills before Congress would more than double spending for such programs, combine them with adult education and involve business people in planning and managing vocational education.

Some members of Congress maintain that vocational education is so important that a big increase in funding should be made immediately to improve and expand programs.

Several business groups say these programs should receive more money from Congress only when they show greater productivity, which they contend can occur only with more participation by business people.

Should business people play a greater role in vocational education?

3. Smaller Farm Role For Government?

The chaotic nature of the nation's agricultural economy was made clear during last summer's severe drought.

Agriculture Secretary John Block, offering little hope for additional assistance, pointed out that one of the leading causes of the federal budget deficit is agricultural aid.

The federal government has assumed different roles for various segments of agriculture. For some farmers, Uncle Sam provides loans or direct subsidies and markets products. Subsidies last year were about $20 billion.

Some business and farm interests think the government should get out of subsidizing agriculture. The Reagan administration, which wants to reduce government intrusions into free enterprise generally, has endorsed a less prominent federal role in agriculture and a move toward a market-oriented agricultural economy.

Others point out that only 3 percent of Americans feed the whole country, with leftovers for export. A free market, they say, would reduce the number of American farm families, figuratively biting the hands that feed us.

Should the government move toward a reduced presence in agriculture?

You can now respond easily to this monthly poll on major business issues by using the attached postage-paid card.

Verdicts on the Best Way To Cut the Deficits

How should the gigantic problem of reducing federal deficits be solved? Little doubt is left about the feelings of NATION'S BUSINESS readers after looking at the answers to the Where I Stand questions on that subject in February: Should taxes be raised? Cut deficits with spending cuts? Cut spending *and* raise taxes?

A heavy majority of respondents made clear they support only half of the effort being made on Capitol Hill to limit the deficits with a program of reduced spending and raised taxes. By a 9 to 1 margin, tax increases were rejected. Support for cutting federal spending was almost unanimous, and only 1 in 5 favored both cutting spending and raising taxes. The tax-writing committees in Congress are now examining ways to combine both approaches.

	Yes	No	Undecided
1. Raise Taxes	9.7%	88.3%	2.0%
2. Cut Spending	97.0	2.2	.8
3. Do Both	20.4	71.1	8.5

More than 1,500 readers took part in the poll. Results will go to appropriate government decision makers.

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Nation's Business

TRAVEL GUIDE

appearing on page 65

It Was Not So Batty An Idea, After All

PHOTO: SKIP BROWN

Courtney Garton (left) and Margie Bryce once thought a hat shop would be a nice sideline to teaching. Now they have three stores and a franchise operation.

"You have no experience, 95 percent of small businesses fail and who in blazes wears hats?" That is what Courtney Garton and Margie Bryce heard from loan officers in 1978, when they decided to go into hat retailing. Garton and Bryce, then newlyweds, were convinced that hats would make a comeback.

Little did they know that six years later, in January, 1984, they would be named Hat Retailers of the Year by the Headwear Institute of America, the national trade association of men's headwear manufacturers.

Originally high school teachers in Anne Arundel County, Md., Garton and Bryce were inspired to go into retailing by the "laid-back atmosphere" of shops in Key West, where they were vacationing over New Year's. They returned to Annapolis, Md., and signed a shop lease, not yet knowing what they were going to sell.

"How about hats?" Bryce asked her husband on seeing a hat in a shop window, and he eagerly agreed. They thought hats would be a manageable sideline to teaching. But they soon realized that their rapidly growing business required full-time attention.

"The way I knew hats were coming back was that in all the Pepsi commercials, women wore hats," recalls Garton. He also attributes the resurgence of hats to movies. "People still come in asking for the 'Annie Hall' hat," he says. "The Indiana Jones style of hat from 'Raiders of the Lost Ark' is the most popular men's hat."

But when they started they knew nothing about the business. To educate themselves, they looked up "hats" in the Yellow Pages and called the first number they saw. It happened to be a hat factory, and they were advised to go to a menswear show in New York. Garton remembers that his wife walked up to hat dealers at the show and said, "Look, you've got 45 minutes. Teach me everything you know about hats."

Despite several turndowns for loans, they opened the first Hats in the Belfry (so named because friends thought they were crazy to go into the business) on the second floor of an Annapolis minimall with $17,000 from a finance company, a credit union and a bank.

"We made a profit from the day we opened the doors," says Bryce, 35. "But we put every penny of it back into buying more stock and expanding."

"We wanted to sell every kind of hat imaginable," says Garton, 37. And they do. With over 100 suppliers, Hats in the Belfry has everything from classy cocktail styles to an Indian headdress.

Says Bryce: "We don't try to sell our customers anything. We try to educate them so that they know the facts they need to know to make a purchase." All their employees—there are 37—go through a training program so they can instruct customers on how to handle and wear a hat, the proper fit and even a hat's background.

Hats in the Belfry has expanded to two other locations: Harborplace in Baltimore and Georgetown in Washington. With each addition, sales doubled, and the Georgetown store alone brought in more revenue in December, 1983, than the Annapolis store brought in during its entire first year in business. Garton estimates the stores have sold around 300,000 hats in the past six years.

The couple have started Hats in the Belfry Franchises and expect to have up to 10 franchises on the East Coast later this year.

With the dressier look now back in style, it is not uncommon to hear that one's ensemble is not complete without a hat. "It's what we've been saying for a long time," says Garton.

—Nancy Croft

For Him, Searching Beats Finding

At age 9, most kids are tossing a football. But Nick Caporella was driving a bulldozer. His father put extensions on the pedals so Nick could reach them.

"I always liked big machines—bulldozers, cranes, shovels," Caporella recalls. Now 47, he is still in the driver's seat; he is president and chief executive officer of Burnup & Sims, Inc. Based in Plantation, Fla., the publicly owned company is the largest firm in the nation providing service and maintenance to the telecommunications and cable television industries.

"My father should get all the credit," Caporella says. "He taught me that you can't say 'can't' and succeed."

Caporella's rise in the business world is so much a Horatio Alger story that in 1979 he was a recipient of the award of that name, given by the Horatio Alger Committee. As a schoolboy in a poor rural mining area of Pennsylvania, he helped support his family by selling scrap metal and coal collected alongside railroad tracks.

"For more money I cut up old conveyor belts into bicycle mud flaps and sold them," he says.

Caporella got hooked on construction when his family moved to West Palm Beach, Fla., so his father could work for a contractor. The family rented servants' quarters behind a private home, and young Caporella worked nights and weekends with his father.

"When I graduated from high school, I took a job as an oiler on a crane—

$1.05 an hour," he says. "I always wanted to be a millionaire. I knew I could make it if I worked hard."

He also knew he wouldn't make it as an oiler, so in 1958, at age 22, he bought a used dragline.

"It cost $9,000, and I offered the guy $1,000 down. But I didn't have $1,000, so I told him I would pay him $250 a week to make the down payment," Caporella says. "I was lucky; he agreed."

Scouring Florida's east coast for site preparation work, Caporella took on contracts, bought more equipment and brought his father and younger brother into the business. In two years, his net worth was a million dollars.

"But that was on paper, and that wasn't good enough," he says. So he took on a multimillion dollar site preparation job in Puerto Rico and eventually bought another company, a sand and gravel firm. At 30, richer still, he sold it all and retired.

"In seven months I was so restless I started up a new site preparation company in Fort Lauderdale," he says. "I named it for my father—Caporella & Sons." Five years later it was one of Florida's largest earth-moving firms and had $2 million in the bank.

Despite his early determination to make a million, Caporella says he and most other risk-takers "really aren't looking for the dollars. We're looking for the challenge. Dollars are the by-product."

Caporella sold Caporella & Sons to Burnup & Sims in 1972 for $10 million in stock. He continued to run his firm as a Burnup & Sims subsidiary, and it proved to be the most profitable segment of the parent company. As a result, he was promoted to executive vice president of Burnup & Sims.

In 1976, with the company suffering reverses because of the recession, Caporella moved up to president and CEO. In six years he took annual revenues from $50 million to $250 million. Still supplying services for cable television and telephone companies, Burnup & Sims diversified, through acquisitions, into printing, movie theaters, soft drink bottling and satellite earth stations.

Caporella is constantly setting goals: "Sometimes my wife and family think my goals are too high, but it's like happiness—the search is greater than the find."

His success has led him to emphasize four qualities he believes an entrepreneur needs: confidence in oneself, desire to succeed, perseverance when everything is coming apart, compassion.

"Compassion makes the other three work," he says. "You must be able to understand your fellow man to have a successful team."

With himself at the controls, Caporella spends 90 percent of his time flying to Burnup & Sims work sites in more than 40 states. Object: to keep the firm's 5,000 employes motivated.

"I don't allow the half-dozen key people at our home office to make decisions concerning the daily lives of the management of our subsidiaries," he says. "I want the manager on the site to make them.

"I would rather have one man with confidence in his gut reactions—and the guts to procrastinate—than five MBAs. Some executives think action is required each time something is not going as planned. They want to jump in quickly and do something when really a decision to do nothing is required."

Of course, Caporella's success has not resulted from prolonged inaction. Rather, it has been a perpetual climb from scrap yards in Pennsylvania to the corporate board room.

And he is still aspiring. His new goal: to increase Burnup & Sims' annual revenues to $500 million.

—Del Marth

PHOTO BURNUP & SIMS, INC

Burnup & Sims' Nick Caporella (right) was a millionaire at 24, but he says money is only a byproduct for risk-takers like him: "We're looking for the challenge."

The Champagne Of Soft Drinks

The list of Howard Lapides' qualifications to import exotic soft drinks was extremely short when he launched International Soft Drinks, Inc., in 1982.

He was only 23, with no experience in business and no money. But he did have enthusiasm and persistence—qualities that helped him double sales in a year and led to recognition from Minnesota Gov. Rudy Perpich for his forays into international trade.

Starting a business was far from Lapides' mind when he visited a friend in Bergen, Norway, in the summer of 1981. He was a student at the University of Minnesota majoring in criminal justice and sociology and thinking of going to law school. But then he sampled Champagne Brus (it rhymes with juice), Norway's third-best-selling soda pop.

Lapides drank so much of the bubbly yellow beverage—which he describes as "a cross between fruity cream soda and Juicy Fruit gum"—that he jokingly said he should import it to America.

When he returned to Minnesota, the thought seemed less and less silly. Lapides wrote a "To Whom It May Concern" letter to the drink's manufacturer, A/S Hansa Bryggeri, in which he described Champagne Brus as "the greatest drink I have ever had" and offered to introduce it to America.

For six weeks, he heard nothing. He followed up with a phone call and soon received a reply thanking him for his enthusiasm and asking what experience he had in marketing. He told the truth: none.

"The marketing director was somewhat taken aback," recalls Lapides, but nonetheless shipped him 10 cases of soda to test.

Lapides tried Champagne Brus on 400 customers in a cross-section of Twin Cities stores in November, 1981. About 80 percent liked it.

The Norwegian marketing director, excited by the results, gave Lapides the green light to break into the U.S. mar-

ket. But Lapides' original idea of making a commission on sales to various bottling companies fell flat. "A lot of bottlers just laughed at me" because of his youth and lack of money, he says. By March, his own enthusiasm began to fizzle.

Fortunately, though, he had hooked his father on Champagne Brus. Jerry Lapides, a real estate developer, secured a $60,000 bank loan for his son, and they incorporated the business in Minneapolis, with Howard as president and Jerry as chairman. (The elder Lapides, however, did not give up his own work.)

Howard Lapides found a bottler, PepsiCo. He began ordering drink concentrate from Norway, and he had PepsiCo package Champagne Brus in newly designed magenta, purple and yellow cans. He priced the product "very competitively," he says, at $1.99 for six.

Lapides peddled his wares to buyers himself until he found a food broker, Fist Brokerage Company in Minnesota, to do much of the legwork. He expanded his territory from Minnesota to North Dakota, Florida, Indiana, Illinois, Texas, Milwaukee and St. Louis and is hoping to reach at least six more states by the end of 1984.

Sales went from 30,000 cases in 1982 to 60,000 last year, and Lapides expects them to total 400,000 this year. Gross income rose from $300,000 in 1982 to almost $500,000 last year, and the fledgling company expects to be in the black at the end of 1984, with a gross of $2 million.

Lapides recently introduced a diet Champagne Brus; Orange Brus, Norway's second-best-selling soft drink; and Lemon-Lime Brus, which he says tastes lighter than Sprite or Seven-Up. He also is close to clinching a deal with a Japanese dairy company in Osaka for the right to produce and distribute Skal, a drink that is a blend of powdered milk and citrus juice. "It sounds sort of nauseating, but it isn't," Lapides says. He also is looking into importing a drink from Australia.

"If you have an idea, go ahead and try it," Lapides tells other would-be entrepreneurs. "Don't take no for an answer."

—Susanni Douville Wendell

PHOTO: MUNDY PHOTOGRAPHY

Howard Lapides liked a Norwegian soft drink so much that he won approval to market it to Americans.

PHOTO: DALE THOMPSON

His interest in a hybrid bond led John Calamos to co-found a lucrative investment business.

Converting Clients To Convertibles

John Calamos was just a teen-ager when he persuaded his mother to invest in some stocks. "Three of the four didn't do so well," he recalls, "but the fourth—Texas Instruments—took off." And a career was born.

Today Calamos is a partner with Thomas Noddings in the suburban Chicago investment firm of Noddings, Calamos & Associates. They specialize in convertible bonds.

Convertibles are hybrid bonds, explains Calamos, 43. Like ordinary bonds, they offer the holder a fixed return. But their principal allure lies in allowing the holder to convert them into a predetermined number of common stock shares should the occasion—such as a bull market—warrant.

Calamos received an undergraduate degree and an MBA at the Illinois Institute of Technology. Later, while he was an Air Force pilot "on alert duty with a lot of time to sit around and think," he made his career choice.

He ended up at Woolard & Company, a now-defunct Chicago investment firm, where he met Noddings, an E.F. Hutton alumnus. Noddings inspired Calamos' interest in convertibles, and the two formed a separate convertibles department within Woolard. Its rapid success impelled them to move out on their own.

A steady stream of clients from their days at Woolard helped them overcome some lean times in the beginning. In just seven years, the company's staff has grown from 5 to 22. From managing assets of under $15 million, the firm now manages almost $100 million.

While Noddings, Calamos & Associates still serves individual investors, Calamos says the bulk of its customers now consists of small and medium-sized pension funds "looking for investment growth and safety" and large institutional investors.

In the planning stage is a mutual fund for convertibles, aimed at small investors who may not be able to afford the cost of a whole bond.

Calamos expects a great deal more growth in convertibles "as institutional investors become increasingly disenchanted with long-term fixed-income instruments." So far, he observes, convertibles have carved out only a relatively small niche in the total securities market.

"Knowledgeable investors can participate in the common equity of a company they like much more safely through a convertible issue," Calamos contends. But he admits that convertibles can be tricky.

There is no one central exchange where the bonds are traded exclusively. Information about companies and other issues does not flow as freely as information about stocks. Consequently, a convertible bond can be over- or underpriced relative to the price of the stock.

Of the 700 convertibles actively traded, only 20 or 30 are solid investments at any one time, Calamos says.

Noddings, 50, is president and looks after the marketing of the firm, while Calamos, as executive vice president, is in charge of operations and serves as the company's spokesman. He also has his own financial television program in Chicago and Milwaukee, teaches graduate-level courses and is a frequent speaker at investment conferences.

But the job he likes best is the day-to-day management of investors' money and matching that money to the right convertible issue.

—Mary-Margaret Wantuck

Issues That Could Affect *Your* Business . . . and what you can do about them

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
Budget/Taxes	Strength and duration of economic recovery will be affected by congressional actions on first budget resolution and various tax bills. Interest, inflation and unemployment rates will all be influenced.	Members of the House and Senate: Oppose major tax increases and capping of third-year tax cut, maintain indexing provision. Reduce interest rate pressure by cutting spending that finances unnecessary programs.
Product Liability	Everyone will benefit if Congress passes legislation clarifying limits and standards on liabilities of product sellers. Less litigation will mean less wasted court costs.	Members of the Senate: Immediate Senate passage needed in order to reduce confusion and lawsuits. Standards should be set for all categories of product liability.
Bankruptcy	Congress approaching deadline on restructuring of bankruptcy courts. Consumer provisions giving judges control over abusers should be added.	Members of the House: Support inclusion of consumer bankruptcy provisions in bill governing status of federal bankruptcy judges.
Contracting Out	Small and large businesses will be denied opportunities to sell their goods and services to the federal government if Congress adopts language opposed by the administration.	Members of the House and Senate: Oppose the many expected attempts to limit conditions in which supply of goods and services can be contracted out to the private sector.
Superfund	Open-ended extension and expansion of program to clean up abandoned toxic waste sites will mean higher taxes, costlier products and greater business liability.	House Energy and Commerce Committee: Oppose overly broad legislation that goes beyond scope of present law. Extend and fund Superfund to identify specific hazardous waste sites.
Occupational Disease	Prpposed federal program to replace state programs for employes claiming disease resulting from workplace exposure could result in overly expensive and unmanageable entitlement.	Members of the House and Senate: Do not federalize worker compensation programs for occupational diseases. State programs now provide full coverage of disability caused by work-related injury or disease.
Trade Reciprocity	Increased employment and a stronger U.S. economy with improved balance of payments rate will result if foreign trade barriers are cut.	Members of the Senate: Support swift passage of bill granting new presidential power to respond to unfair foreign trade practices.

It's Time To Campaign Against a TEFRA II

There is a disturbing familiarity about the move in Congress to raise business taxes as a means of reducing the federal deficit.

Increases are needed, the argument goes, to provide assurances that red-ink spending and its potential threat of higher interest rates are being contained.

The same rationale was advanced in 1982, and Congress responded with the Tax Equity and Fiscal Responsibility Act. Its impressive title notwithstanding, TEFRA was actually a $100 billion tax increase targeted almost exclusively at business.

Opponents were assured at the time that there would be $3 in spending cuts for every $1 in tax increases. But the latter were locked into law, while the former remained a vague promise. As a result, there was a $1.14 *increase* in outlays for every $1 of new revenue.

The current drive for still more increases in business taxes should be considered in the light of the 1982 experience.

There is talk of coupling the currently proposed tax increases with spending cuts, but exactly how that would be achieved in binding legislation has not been made clear.

In any event, business should unite in opposing tax increases until meaningful spending cuts have been enacted.

Healthy Signs In Medical Care

Escalation of medical care costs remained a serious economic concern long after inflation in general began its plunge to the present low levels.

But there are now encouraging signs that the health cost spiral is yielding to the same market forces that brought down inflation in other sectors of the economy. (See the article beginning on page 18.)

Competition is proving to be highly effective in curbing medical costs.

An important reason for this encouraging development is the lead role assumed by business. As the principal purchasers of medical services, primarily through group insurance coverage, employers had watched their health care costs increase 250 percent in the last decade.

Some of the largest increases came during the recession. That experience was a potent catalyst in transforming longstanding employer concern about medical costs into effective activism.

Insurance companies and health care providers, including physicians and hospitals, are also making major contributions.

This cooperative effort is well begun. Those who have a role in it deserve the appreciation of every individual who is concerned about achieving adequate medical care at a reasonable price.

America and Japan Must Keep Talking

The United States and Japan have much in common. Both are democracies, enjoying the privileges of political freedom. Both are capitalist nations, able to enjoy the in-depth prosperity that is possible only with economic freedom.

Both are industrial and trading nations. And in each there are forces that short-sightedly favor impediments to the two-way flow of international trade—a flow that, if it is free enough, in the long run benefits everyone.

A recent videoconference sponsored by this magazine was a milestone on the road to freer trade. A distinguished audience at the Okura Hotel in Tokyo watched and heard distinguished speakers in the BizNet studio of the U.S. Chamber of Commerce in Washington discuss U.S.-Japanese trade relations (see page 78). There was a lively dialogue as some of those in the Tokyo audience responded.

U.S. Trade Representative William E. Brock, speaking in Washington, cited Japanese restrictions that deny U.S. companies access to a string of markets in Japan.

From Japan came criticism—echoed in Washington—of American protectionism as evidenced by the drive for legislation to require U.S. parts and labor in imported autos.

The two countries must continue to talk out trade difficulties in a spirit of candor and cooperation like that shown in the videoconference. Talk may be cheap, but a lack of it can be mighty expensive. □

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